ROUTLEDGE STUDIES IN SUSTAINABLE DEVELOPMENT
Emerging Economies and Challenges to Sustainability
Theories, strategies, local realities
Edited by Arve Hansen and Ulrikke Wethal
ROUTLEDGE

Unusually this is a book about almost everywhere except the West. From obvious countries like China and India to less obvious places such as Ethiopia and Peru, it explores the multi-faceted nature of 'sustainability'. Scholars with expert country knowledge detail the sustainability challenges facing the emerging economies of the world and the difficulty – perhaps even the impossibility – of successfully navigating a path that achieves growth without environmental decline. This is a book for anyone who seeks to go beyond the platitudes of sustainable development.

Jonathan Rigg, *National University of Singapore*

Coupling two critical issues of our time – sustainable development and the changing centre of gravity of the global economy – this researched, informative and wide-ranging book both informs and stimulates the reader. It will be of interest to area studies, environmental studies and political economy specialists, students and policy makers.

Raphael Kaplinsky, *The Open University, UK*

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Emerging Economies and Challenges to Sustainability

The rise of emerging economies represents a challenge to traditional global power balances and raises the question of how we can combine sustainability with continued economic growth. Understanding this global shift and its impact on the environment is the paramount contemporary challenge for development-oriented researchers and policy makers alike. This book breaks new ground by combining scholarship on the role of emerging economies with research on sustainable development.

The book investigates how the development strategies of emerging economies challenge traditional development theory and sustainability discourses. With regional introductions and original case studies from South Asia, East Asia, Latin America and Sub-Saharan Africa, it discusses how to conceptualise sustainable development in the global race for economic prosperity. What characterises the development strategies of emerging economies, and what challenges are these posing for global sustainable development? How can emerging economies shed light on the global challenges, dilemmas and paradoxes of the relationship between socio-economic improvements and environmental degradation?

This book will be a valuable resource for researchers and postgraduates in development studies, geography, economics and environmental studies.

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Emerging Economies and Challenges to Sustainability

Theories, strategies, local realities

Edited by Arve Hansen and Ulrikke Wethal

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Part I

Introduction

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1 Emerging economies and challenges to sustainability

Arve Hansen and Ulrikke Wethal

More than 25 years since the World Commission on Environment and Development (WCED) introduced the idea, the world is as far as ever from achieving the goals of sustainable development. However, in terms of *economic* development, much has changed in this period. A range of countries outside the 'North' have achieved rapid growth rates and are becoming increasingly important players in the world economy, recognised as a significant ongoing global shift. Understanding the causes and consequences of this shift is the paramount contemporary challenge for development-oriented academic enquiry and policy makers alike.

In this book, we examine 12 countries in the 'South' which have been designated as 'emerging economies'. As discussed at some length below, this is a problematic term and can sometimes be used to include a large number of countries. Our cases have in common rapid economic growth and, as one might expect, they exhibit an increasing degree of integration into world markets. Many of them have also reduced poverty to a significant extent. But at what cost to the environment – local, national or global? Several of these emerging economies have achieved their position through development strategies radically different from those promoted by the North, thus contesting the North's hegemony in defining the road to economic growth and social development. While the rise of the South represents a range of opportunities, it also involves serious challenges. More fundamentally, it involves an even stronger threat to global environmental sustainability.

Through the case studies, we will provide empirical evidence for an assessment of the different countries' performance in relation to sustainable development. We will also critically examine the concept of an emerging economy. What is implied in the term 'emerging' and does it differ from the earlier term 'developing'? Do these emerging economies have something in common, beyond their rapid economic growth? Can we find significant patterns within this group, such as similarities or differences between geographical regions? And what can we learn from interrelations between these countries and regions?

Thanks to impressive growth rates, many of the emerging economies have managed to lift large segments of their populations out of poverty. However, extreme poverty persists and inequality has often increased substantially

(although some positive trends are evident in Latin America, as discussed by Bull in Chapter 9). Furthermore, while the environmental dimension tends to be downplayed in the narrative of emergence, it represents an important issue in the nexus of development challenges. The ways in which the emerging economies are handling the complex trade-offs between economic, social and environmental concerns have, and will continue to have, implications for global sustainability. There is thus an urgent need to find new ways of meeting the demands of continued economic development within the capacity of the sources and sinks of the natural environment.

The concept of sustainable development was introduced in 1987 by the WCED in the Brundtland Report (*Our Common Future*) to reconcile environmental aspects, social equity and economic demands in an attempt to combine concerns about a range of environmental challenges with socio-economic issues. Since then, a wide range of approaches have contributed to the mainstreaming of sustainability concerns in development discourses. Parallel to this, a growing body of literature has, especially since the mid-2000s, focused on the role of emerging economies in transforming the global economy (e.g. Mawdsley 2012; UNDP 2013; Looney 2014). The debate often revolves around economic investments, power displacements globally and new models for development assistance, but seldom intersects with the debates of sustainability. This book sets out to bridge the scholarship on development in emerging economies with that of sustainable development. Our purpose is, through interdisciplinary approaches to development theory, development strategies and country case studies, to investigate if and how the development strategies of emerging economies challenge traditional development theory and sustainability discourses.

The continuing relevance of sustainable development

From the time of its introduction as a new concept, the idea of sustainable development has been subject to controversy and dispute. A major criticism has been that the concept is ill-defined, so that what sustainable development means largely depends on the position of the person or institution using the term (McNeill 2000). Thus, in his rather devastating critique of mainstream approaches to sustainability, Adams (2009, p. xvii) writes:

> Truly, the path to sustainable development is paved with good intentions, but the rhetorical vagueness of that master phrase has made it too easy for hard questions to be ignored, stifled in a quilt of smoothly crafted and well-meaning platitudes.

We acknowledge this critique, but still hold that the concept of sustainable development has unique value in bringing together the most crucial issues of development. We thus use sustainable development as an analytical tool for conceptualising global challenges and the dilemmas and paradoxes that

characterise the relationship between socio-economic improvements and environmental degradation.

At the core of the concept of sustainable development, and in contrast to earlier environmental approaches, was the insistence not only to focus on physical limits, but also to incorporate socio-economic factors. The Brundtland Report (WCED 1987) called for stronger growth in developing countries so as to improve the living standard of their populations, a progressive redistribution of this growth as well as a new quality of growth in industrialised countries, emphasising the fulfilment of needs for work, food, energy, water and hygiene for all people. This is where sustainable development becomes problematic, and perhaps even represents an oxymoron. Sustainable development as a concept attempted to incorporate two major, but essentially different, discourses: First, the discourse of development, which had mostly been concerned with industrialisation and modernisation, and, second, the environmental discourse, which mainly concerned the consequences of industrialisation in the Global North (e.g. Adams 2009).

The resolution of these environmental and developmental issues has never been more urgent than it is today. What has come to be called the anthropocene geological period is characterised by deep human impacts on the earth's ecosystem. With the coining of the term sustainable development, it was emphasised that, in order to provide 'development space' for developing countries, the affluent parts of the world would have to reduce their ecological footprint. The Brundtland Report (WCED 1987, p. 52) clearly stated that 'Major changes in policies will be needed to cope with the industrial world's current high levels of consumption, the increase in consumption needed to meet minimum standards in developing countries, and expected population growth.' After three decades of sustainability discourses, there has been no reduction, but rather further increase in the footprint of the North (as McNeill and Wilhite discuss in Chapter 3). In the same period, despite the lack of 'development space', emerging economies have been developing at a very fast pace and drastically increasing their demand for natural resources.

Even though much of the global geographical rescaling is taking place outside the North, the old industrialised nations are still driving global environmental degradation, particularly if measured in per capita terms. For example, even though some countries have managed to reduce emissions, the main reasons for this accomplishment have been processes of deindustrialisation and outsourcing of industry. Hence, international trade to some extent reduces environmental degradation in developed countries, while increasing it in developing countries (Cole 2004 in UNEP 2012). This leads us to another problem of sustainable development: While the idea and concept clearly state the need to tackle unsustainable levels of consumption, approaches to sustainable development in practice have been highly production-centred (Hansen 2012). If we turn our gaze towards consumption rather than production, it is clear that what has happened is a spatial relocation, rather than a reduction, of the environmental degradation caused by the North. In this sense, the new manufacturing hubs in the

South have to a significant extent been subsidising the consumption of the new service economies in the North (Dasgupta 2002), and thus also their environmental performance. In the South, this has meant new economic opportunities and new environmental challenges, while allowing countries in the North to claim they are taking environmental responsibility without challenging high material and resource-intensive living standards.

A changing economic map: towards multipolarity?

The global economic map has changed rapidly since the end of the twentieth century as the axis of globalisation has turned from North–South to so-called South–South relations. The South's share of international trade has risen from 26 per cent in 1995 to an estimated 42 per cent in 2010. This rise has primarily been due to an expansion of trade among countries in the South, and not between North and South, which has traditionally been the norm (World Bank 2011). The emergence within the South coincides with great alterations in the economic reality of the North. The economic recession and financial crisis of 2008/09 was a heavy blow to the world's leading economies (although its effects were not isolated to the North). Furthermore, several Southern states pulled through the financial crisis in spite of lower demand (and foreign aid) from the North partly due to a shift of economic partners to the emerging South, primarily China. The euro crisis further exacerbated the economic recession of Europe and, with the downgrading of US credit rating, new geographies of economic power became even clearer (Mawdsley 2012). As noted by The Economist (2010 in Sidaway 2012, p. 54):

> Trade between developing countries, and between them and the BRICS, is rising twice as fast as world trade. Even more strikingly, while growth has headed south, debt has headed north, the opposite of what happened in the 1970s and 1980s, when poor countries ran up vast debts.

The debate revolves around whether we are entering a phase of multipolarity after having a Western hegemony led by United States since the fall of Communism in 1989 or if the next century will belong primarily to China. The talk of a new 'Beijing Consensus' replacing the Washington consensus during the early 2000s (Ramo 2004) reflects the latter point of view.[1] Or are we approaching a new bipolarity with the US on the one hand and China on the other? Or witnessing the start of a global-Asian era? While these are all tempting ways of predicting the future of the world order, they fail to grasp the multitude of developments in the South. According to predictions by the World Bank (2011), the distribution of growth will become more diffuse, with no single country dominating the global economic scene. While leading the way, China is certainly not the only emerging economy, and not the only nation with the power to influence developments around the world. New states are demonstrating both power and resistance in terms of geopolitics and

new ideologies of development and, as a result, putting old classifications of the world into question.

While socio-economic development strategies have varied, the fundamental driving forces of economic development have not changed significantly. The continuing expansion of capitalism, and the dominance of its growth imperative, is evident across the world, and the emerging economies now play vital roles in both meeting and fuelling a seemingly endless growth in demand for energy and natural resources. While the economic growth in emerging economies has been dependent on high consumption in foreign markets, their domestic middle classes are growing rapidly. The global economy is still dependent on US and European consumers, but according to Kharas and Gertz (2010), the number of middle-class consumers in Asia is now close to equal that of Europe and North America. Moreover, the 2013 Human Development Report expects more than 80 per cent of the world's middle class to be residing in the South by 2030, and to account for 70 per cent of total consumption expenditure (UNDP 2013).

Long-term development strategies in a context of intense international competition for market access have led to a reinvigorated state-led global scramble for access to resources. As argued by Kaplinsky and Messner (2008, p. 8):

> the flip side of the discussion on sustainability and global climate change is the renaissance of geo-economics and geo-politics: competition between the 'old' and the 'new' global powers for energy and resources in Africa, Latin America, Central Asia and Russia.

It is evident that the commodity demand from large economies such as China and Brazil is to a certain extent influencing development strategies of smaller emerging economies. At the same time, this scramble for resources could lead to new potential conflicts of interest, as the large emerging economies seek access to land and resources in other countries in the South.

Categorising the world

> How many worlds do we need to capture and characterize the increasingly diverse spaces of development?
>
> (Sidaway 2012, p. 52)

Ever since humans began writing about the world, we have attempted to divide it into comprehensible categories, constantly debated and reconfigured. Since the United Kingdom started industrialising, becoming the first mover of modern development, economic development has mainly been defined as a catch-up process (Payne & Phillips 2010). Gerschenkron (1962) conceptualised the industrialisation of the 'second movers', Germany, US and Russia, as 'late development'. Later, a range of categories have been used to divide the world into simple, but seldom very accurate, classifications. At the start of the modern

'Era of Development', 'underdeveloped countries' was the most common category for all countries outside the core capitalist world. It was later replaced by 'less developed countries' before being substituted for the more optimistic label 'developing countries'. This sparked much debate. Particularly the post-development school heavily criticised the division into a developed and a developing world, seeing it as both wrongly assuming that development was occurring, as well as representing a chauvinistic claim of pre-destined emulation of the 'developed' countries (see, e.g. Rist 1997). The World Bank on the other hand adopted strict economic categories, dividing between low-, middle- and high-income countries based on GNI. These have been highly influential in national development planning, as can be seen in several of the case studies of this book.

Among other categorisations, the 'core' and 'periphery' of dependency theory have all but disappeared, while a division of the world into First, Second and Third has partly survived. Although the idea of a Third World first involved the creation of a 'Third Force' in world affairs distinct from American capitalism or Soviet socialism (see, e.g. Tomlinson 2003), this was later partially replaced by cold war geopolitical logics. Here, the First World promoted development in the Third, while the Second (represented by the Soviet bloc) was opposing it (Potter *et al.* 2008). Interestingly, while the First and Second Worlds disappeared from the development vocabulary after the collapse of the Soviet Union, the Third World has persisted. The categories North and South gained popularity after the Brandt Report (1980), despite being heavily criticised for its simplicity (Potter *et al.* 2008). This dichotomy has persisted, and is now widely used in academia, politics and by NGOs, perhaps due to its more neutral sound. As is evident from this chapter, we are also guilty of using this division, despite its failure to grasp the varieties of development progress as well as its geographical ambiguousness.

For lack of better options, scholars tend to use one or several of the categories above. However, the success of some of the countries within the developing/South/Third World categories has called for refinement of the terms, leading to new and more specific categories. In 1989, Alice Amsden (1989, p. v) spoke of the 'late industrialisers' as a 'subset of developing countries that began the twentieth century in an economically backward state based on raw materials, and dramatically raised national income per capita by selectively investing in industry'. These late industrialisers became known as Newly Industrialised Countries, or simply NICs, and inspired a second generation of 'catch-up' theories (Payne & Phillips 2010). In another influential book by Amsden, *The Rise of the Rest* (2001), the world outside the North was simply divided in two: 'the rest' and 'the remainder'. 'The rest', comprising China, India, Indonesia, South Korea, Malaysia, Taiwan and Thailand in Asia; Argentina, Brazil, Chile and Mexico in Latin America; and Turkey in the Middle East, were defined as such due to their acquired manufacturing experience in the production of silk, cotton textiles, foodstuffs and light consumer goods, which allowed them to move into mid-technology and later high-technology sectors. 'The remainder' group were

countries less exposed to modern production systems during the pre-war period. Although it seems like also these categories are starting to fall short of being able to describe the current geo-economic world map, they are interesting due to their refinement of economic categorisation based on industrial capacity.

As Payne and Phillips (2010, p. 158) put it, 'the rise of the East Asian NICs eroded the utility of established categories [...], but the emergence of China, India and other Asian economies has emphatically shut the lid on these terminological coffins'. A new trend during the 2000s has been to talk of 'emergence', whether emerging markets, emerging powers, emerging countries or emerging economies. The development of the idea of 'emergence' is closely related to the world of finance, and has often been related to market opportunities for global capital rather than development per se. Where an important logic behind the term *developing* was to raise development aid to the South, *emerging* thus seeks to attract investment. Indeed, the financial world has played a very important part in the construction of a 'world of acronyms', involving the lumping together of countries with often little in common. The BRICs (Brazil, Russia, India, China), first coined by Jim O'Neill of the investment bank Goldman Sachs in 2001, is the most famous one, and is also very interesting because of its ramifications for international relations. Later joined by South Africa to form BRICS, this is now the basis of a bloc for economic cooperation (although the five countries are arguably competing more than cooperating, according to Bøås, Chapter 14). Other acronyms include MIST (Mexico, Indonesia, South Korea, Turkey), VISTA (Vietnam, Indonesia, South Africa, Turkey, Argentina), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa) and later additions like MINT (Mexico, Indonesia, Nigeria, Turkey) and BIITS^2 (Brazil, India, Indonesia, Turkey, South Africa). But it does not end here; we have CARBS (Citigroup's mix of commodity-producing nations Canada, Australia, Russia, Brazil and South Africa), CASSH (Canada, Australia, Singapore, Switzerland and Hong Kong) and TIMPs (Turkey, Indonesia, Mexico and the Philippines) (Levisohn 2013). In addition, there has long been talk of the 'Next Eleven': Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam, again categorised by O'Neill of Goldman Sachs, and seen as having a high potential, along with BRICS, of becoming the world's most important economies in the twenty-first century (O'Neill 2007).

It is evident that these acronyms are based on the interest of financial capital rather than any real similarity between the countries. The power of global finance to set these categories thus corresponds with the growing power of financial capital in the global economy. They are, however, also central to the new discourse of emergence, and can be seen as manifestations of a changing world, as reflecting Harris' (1986) call for 'many worlds' to reflect the diverse development paths of what used to be lumped together as the 'Third World'. As Sidaway (2012, p. 56) points out, these new labels are 'embodiments of and agents in the decomposition of the Third World as denoting a meaningful category'. But how meaningful is the category of emerging economies?

Conceptualising emergence

What does it mean for a country to be emerging? As all other generalising categories, this is a vague and in many ways imprecise term. In *Global Development Horizons 2011*, the World Bank (2011, p. xvii) defined an emerging economy or market to be 'economies with relatively high levels of economic potential and international engagement' and listed 62 countries, mostly in Asia and Latin America, as belonging to this group. The International Finance Corporation (IFC) simply categorises 'emerging markets' as those that are located in low- or middle-income economies with a certain openness to foreign portfolio investment (Sidaway & Pryke 2000). The mentioned CIVETS, coined by Robert Ward of the Economist Intelligence Unit in 2009, denoted 'second-generation emerging powers with young populations, decent growth rates, emerging middle-class consumer markets, diversified economies, and reasonably robust financial systems' (Mawdsley 2012, p. 18). The seemingly interchangeable use of the terms emerging economies, markets, powers and countries complicates the discourse even further. For example, the Human Development Report 2013, titled *The Rise of the South*, uses all these terms repeatedly, without ever defining any of them. And perhaps just as well, because these 'definitions' are not only vague, they are bordering on the meaningless. 'Relatively high levels of economic potential' can mean basically anything, and what are 'reasonably robust financial systems' or 'a certain openness'?

Perhaps the most interesting aspect of *emerging* is that it makes an attempt to locate groups of countries within the *developing* world based on certain (although ill-defined) criteria. A defining trait of the term emerging economies, as opposed to previous conceptualising terms, is that it tries to designate certain common characteristics amongst the countries within the South, rather than simply grouping countries together based on what they are not. Indeed,

> Like other collective descriptions of Africa, Asia, the Middle East, the Pacific islands and Latin America – such as the 'South', the 'developing world', or the 'less-developed world' – the designation 'Third World' was more about what such places were not than what they were. That the term was often used normatively rather than analytically complicates matters further.
>
> (Tomlinson 2003, p. 307)

An emerging economy is labelled as such based on the country's own characteristics, not what it lacks in comparison to others. Furthermore, despite its vagueness and limitations, the term has become rather powerful in contributing to the processes it seeks to describe. A clear example is the acronym BRICS. What started off as a term created by a corporate analyst in 2001 was later adopted by the countries it was invented to describe. The label has also made governments strive to represent their country as investable and business-friendly under the term emerging economies, rather than, for example, Third World or developing, as a way to achieve prestige and attract foreign investments (Lai 2006).

As developing is now used about any country in the South, no matter its performance, to be emerging denotes difference. Although it sometimes is unclear whether the label of emerging depends on *potential* or *actual*, *genuine* success, it involves at least the idea of positive performance, usually related to achieving economic growth. There are also other important differences between these two terms. Developing relates to improvements, usually understood as developing *out of* an undesired state. Emerging denotes becoming apparent or prominent, and this set of countries is not only developing out of the undesired state, it is emerging *into* prominence, usually implying *into* the global economy. But while we frequently talk of developed countries, the same does not apply to emergence. The label emerging is used generously, but it paradoxically seems to involve a perpetual state. If South Korea, one of the most advanced economies of the world (and OECD member), is grouped along with Mongolia as emerging (as in World Bank 2011), when has a country ever *emerged*?

As indicated above, emergence corresponds with economic integration in the capitalist world economy. The new multipolarity takes place within an increasingly globalised economic system, and the emerging economies have in a sense 'advanced' to this status within the system (Sidaway & Pryke 2000). Indeed, the new categorisation involves a 'rhetorical civilizing of these "disorderly spaces" for capitalist expansion' and 'a linear process of incorporation towards achieving "developed market" status' (Lai 2006, p. 628). Even though some of the emerging economies are self-proclaimed socialist countries, they represent alternative takes on development *within*, rather than fundamental challenges *to*, capitalism. Emergence in this way is cause and effect of the geographical expansion and deepening of capitalism, and the emerging economies represent new spaces of accumulation for global capital. The fact that emerging involves an intensification of the capitalist production system has implications for how we understand challenges to sustainability, as it calls for questioning the sustainability of capitalism as an economic system (as critically discussed by McNeill and Wilhite in Chapter 3).

In this book, we have chosen to use the discourse of emerging economies as a starting point for the selection of case studies, as well as for approaching global development trends. We will, however, re-evaluate its usefulness in the concluding chapter, based on evidence from the case studies.

Geographies of emergence: outlining the book

The case studies in the book are divided regionally: Latin America, Sub-Saharan Africa and Asia[3]; each of these consisting of an overview chapter and case studies from four emerging economies within the region. While the focus of the different case chapters varies, all relate to the overall topic: How sustainability is managed within the development strategies of emerging economies. As geographers, structuring this book geographically was an easy decision. Moreover, we do feel that this makes sense on many levels. Globalisation has been accompanied by strong regionalisation around the world, and the regional overviews

provide the contextual backdrop for better understanding the case studies. There are also important linkages across, within and between the different regions, with China in Africa as the one receiving most attention. Others, like the BRICS cooperation and the increasing influence of, for example, India and Brazil across regions, are indications of a future in which South–South cooperation is of growing importance.

The return of Asia

As Dicken (2011, p. 29) claims in *Global Shift*, 'Without any doubt, the most significant global shift in the geography of the world economy during the past 50 years has been the resurgence of Asia – especially East Asia.' He places this shift in four major processes: the rise of Japan after the Second World War, the four tigers (Hong Kong, Singapore, South Korea and Taiwan), the (re-)emergence of the dragon (China) and the potential economic dynamism of India. It is the same observations that have led us to focus on East, South and Southeast Asia in this book. The rapid development in East Asia after the Second World War challenged the way development was approached. It showed that it was possible for a country in the South to integrate successfully into the global capitalist economy. Furthermore, it challenged the neoliberal mantra of state intervention as detrimental to economic growth (although the World Bank attempted to fit this so-called 'miracle' into its model, as Masina discusses in Chapter 4).

China and India now attract most attention since, as Kaplinsky and Messner (2008, p. 199) put it, '[t]he big-size effects of China and India amounts to tectonic shifts in the world economy'. Asia and the Pacific is home to more than half of the total world population. Indeed, China and India in 2013 alone accounted for around 37 per cent of the world's population (UNFPA 2013). China is now the second largest economy in the world and India is expected to be the third largest within the next 15–20 years (e.g. Goldman Sachs 2010). But also, in the wake of Japan and the Asian Tigers, a range of countries in Southeast Asia, such as Vietnam, Thailand and Indonesia, started achieving high growth rates. The significant impact this region has on the global economy and international relations is becoming increasingly obvious. As Schmitz (2007, p. 51) says, '[t]hey are not just catching up, they have begun to drive the changes in the rest of the world'. This makes Kaplinsky and Messner (2008) refer to the dynamic Asian countries as 'Asian Drivers of Global Change'.

In Asia, it is probably more suitable to discuss *re-*emergence. To label a country like China an 'emerging economy' is both misleading and somewhat insulting (although China frequently places itself under the category 'developing country'). Terms like these can indeed be 'problematically dehistoricizing' (Mawdsley 2012, p. 5). Andre Gunder Frank (1998) in *ReOrient* explained the recent Asian shift as the inevitable re-emergence of the East to its historically dominant position. Before the Industrial Revolution and the following Western imperialist expansion, this region was home to some of the most advanced

civilisations on the globe. Asia is thus indeed re-emerging. And not only in terms of national development projects, but also as leaders in creating a new global map of economic and development cooperation and interaction. Japan has for a long time played a central role in East and Southeast Asia. Now, China's role in Africa attracts much attention, as well as, although to a lesser extent, India in its neighbouring countries as well as increasingly in Africa.

The rapid economic development in East and Southeast Asia is discussed by Pietro Masina in his regional introductory chapter. He raises the issue of dependent development in the region, and how the development trajectories of the Southeast Asian emerging economies differ from that of Japan and the Asian Tigers.

Asia's rapid development obviously has huge impacts on the environment, and particularly China is frequently portrayed as the main challenge to future sustainability. How the environmental effects of rapid growth are approached in the national development discourse is discussed in Hege Merete Knutsen and Xiaoxi Ou's critical analysis of China's ostensible embrace of ecological modernisation. India is another usual suspect in discussions of threats to global sustainability. While much has been written about the development of the world's largest democracy, Kenneth Bo Nielsen sheds light on local realities in rural India in his ethnographically based analysis of the complexity of industrial-agricultural relations. The two subsequent cases represent the second layer of Asian emerging economies: the old 'donor darling' of Indonesia, and the new 'development success story' of Vietnam. Gyda Marås Sindre discusses Indonesia's recent developments, with particular focus on the redefinition of development planning and the intersections between policies and politics in practice. Arve Hansen discusses the sustainability of Vietnam's development model, as well as considering to what extent it represents, as championed by the Vietnamese Communist Party, a brand new model of development and an alternative to capitalism.

Latin America – out of the US's backyard?

Latin America is one of the most dynamic regions in the world, and also one undergoing significant transformations. Suffering badly from the debt crisis of the late 1970s, followed by 'the lost decade' of the 1980s, Latin America was for a long time used as an example of failed development strategies in comparison to the Asian Tigers, specifically related to unsuccessful land reforms, high levels of inequality, as well as what was seen as an overreliance on import substitution policies (e.g. Haggard 1990). This is rapidly changing. During the last ten years, the region has experienced high and stable economic growth, put to the test and tackling the challenges as countries bounced back from the 2008/09 financial crisis rather rapidly. Simultaneously, there are indications of declines in socio-economic inequality. The region is increasingly attracting foreign direct investments (FDI), and China has risen as an important trading partner, especially in the cases selected for this book.

The role of FDI and new trading partnerships is accompanied by a greater importance of Latin American companies both within and beyond the region, as discussed by Bull in Chapter 9.

As is evident from the discussion of general regional trends and developments in Benedicte Bull's introduction to the region, several other countries in Latin America could have been included under the label emerging economies. We have included four highly interesting cases, representing the two main different approaches to development in Latin America: the neoliberal and the centre-left turn in the region. Argentina and Brazil represent examples of the latter. Brazil, known as one of the most important emerging economies globally, is discussed by Einar Braathen and Yuri Kasahara. They explore the sustainability of Brazil's development strategies, focusing particularly on social policies and urban development in the context of the country's impressive economic growth. As for Argentina, Kristi Anne Stølen, based on longitudinal ethnographic fieldwork, explores the modernisation process of the agrarian production system in the country, focusing particularly on the introduction of GM soy. Chile and Peru belong to the more neoliberal group of Latin American countries. Andrés Solimano and Marianne Schaper discuss the paradoxes and severe sustainability risks of Chile, a country often presented as a showcase for sound economic management, rapid growth and macroeconomic stability, focusing particularly on inequality, deindustrialisation and natural resource dependence. Natural resources are also central to the assessment by Jemima García-Godos and Henrik Wiig of the mining sector in Peru, emphasising the tensions between national development strategies and local realities.

Emerging Africa?

Although often ignored within the discourse of emergence, many of the world's fastest growing economies and most lucrative markets for FDI are currently located in Africa. The coining of the term 'Emerging Africa' indicates a significant economic shift on the continent, one that, however, still tends to be overshadowed by the more familiar stories of failure, despair and hopelessness.

The term Emerging Africa was first used to describe newly dependent African countries after colonisation (see, e.g. Klitzke 1969), but it disappeared and re-emerged only in the late 1990s, reflecting greater political and economic stability in several African countries (Berthélemy & Söderling 1999). The term has since then been used to describe, explain, predict or challenge the economic developments of some Sub-Saharan African economies (Berthélemy *et al.* 2001; Nair 2009; Radelet 2010; Moghalu 2013).

The use of the term was strengthened with Steven Radelet's influential book *Emerging Africa* (2010), where he differentiates between three groups of African countries: the emerging economies, the oil exporters (where progress has been uneven and volatile) and the others (where there has been little progress). The first group consists of 17 African countries that are emerging from conflict,

stagnation and dictatorships of the past, replacing this with steady economic growth, deepening democracy, improved governance and decreases in poverty (Radelet 2010). Our choice of cases, South Africa, Mozambique, Botswana and Ethiopia, are in line with Radelet's categorisation.

While acknowledging their fragility, Radelet calls these novel developments a complete turnaround, referring to economic considerations such as considerable growth rates due to a significant increase in trade and investments, as well as improved social developments. While we share Radelet's excitement about the deep changes occurring on the continent, and potentially a brighter future than what has been predicted in the past, our cases might nuance the overall positive connotation of Emerging Africa. Morten Bøås, in his chapter, presents a regional overview of Sub-Saharan Africa, discussing patterns of growth and progress, as well as crucial social, political and environmental challenges lying ahead. The continent stands at a crossroad, where the path chosen will determine whether or not the next century truly does belong to Africa (see discussion in e.g. World Bank 2000). Many of the countries are basing new or renewed economic growth on the aggressive exploitation of non-renewable natural resources, encouraged by the increased demand for coal, gas and minerals from, for example, Asian emergence. Indeed, Africa's ecological footprint (combined demand on natural resources) increased by 240 per cent between 1961 and 2008, albeit beginning with a very low baseline compared to the global average (WWF & AfDB 2012). How the individual country manages both resource exploitation and the revenues that follow will have significant consequences for the social and environmental aspects of sustainable development. To what extent is economic growth translated into a structural change of social development and poverty reduction? And which role is granted environmental considerations in Africa's emerging economies?

When referring to an emerging Africa, being the sole power house in the region, South Africa must be included. Furthermore, the country has obtained other powerful partners when invited to join the BRIC-countries in forming BRICS in 2010. The *real* power of South Africa within this influential constellation can still be questioned, as its economic achievements are rather small compared to its partners. Dianne Scott, Catherine Sutherland, Vicky Sim and Glen Robbins tell a different story of South Africa when discussing the post-apartheid evolution of sustainable development as a concept and in practice. They use various examples to illustrate the multiple ways in which sustainable development has been constituted and implemented in policy and practice at the national and local scales of South Africa.

Both Botswana and Mozambique have been portrayed as development successes, although in different ways. For Mozambique, this has been related to successful implementation of policies of the Washington Consensus, while Botswana's developmental state has apparently been able to sufficiently extract and distribute its vast resource potential. In his chapter, Ian Taylor tries to understand the ways in which Botswana has managed the issue of sustainable development in the country's development strategy. Ethiopia and Mozambique

are definitely newcomers to the discourse of emergence, and their development trajectories are more commonly introduced when discussing poverty and conflict. However, both countries are now leading in terms of economic growth on the continent and are key destinations for foreign investments. How economic growth is distributed and traded off with social equality and environmental protection is explored by Axel Borchgrevink in his discussion of the 'green economy' of Ethiopia and by Ulrikke Wethal in her search for sustainability within the development strategy of Mozambique.

Theories, strategies, local realities

We start this book by establishing the framework for the country case studies, discussing how the rise of the South challenges development theory and sustainable development. In Chapter 2, Benedicte Bull places the emerging economies within the context of the modern history of development theory, discourse and strategy. She discusses the potential and actual impact of the rise of the emerging economies on theory and strategies of development, from the post-war geopolitical context to the multipolar world of today. In Chapter 3, Desmond McNeill and Harold Wilhite critically assess the concept of sustainable development in a rapidly changing world. They argue that sustainable development has failed partly because no government has challenged the growth imperative of capitalist development despite growing evidence of impending ecological crisis related to climate change. They argue that, although potential solutions have been promoted to overcome the paradox of continued economic growth and reduced environmental impact, it seems that these fail as credible solutions. These stage-setting chapters are followed by the main part of the book (as introduced in the previous section), with the regional chapters and case studies from Asia, Latin America and Sub-Saharan Africa. Together, these offer novel insights into how emerging economies balance social, economic and environmental concerns in their development strategies, as well as into the many local realities of development processes.

The Brundtland Report called for a new development path. This has failed to materialise in the industrialised countries. The emerging economies are in general known to not always follow the prescriptions by Western donors and the international development policy establishment. But are they in any way more true to the vision of sustainable development? How does 'the rise of the South' challenge conventional development theories and sustainability discourses? What characterises the development strategies of selected emerging economies, and what challenges (and opportunities?) are these posing for global sustainable development? Can we conceptualise sustainable development in the global race for economic prosperity? Can sustainability be combined with continued economic growth? These are some of the vital questions this book takes as a starting point in shedding light on these crucial global challenges, dilemmas and paradoxes embedded in the relationship between socio-economic improvements and environmental degradation.

Notes

1 Joshua Ramo is regarded as having identified the so-called Beijing Consensus as a new and more flexible approach to development that outcompeted the rigid 'Washington-knows-best' Washington Consensus (as identified and summarised by Williamson 1990). See Breslin (2011) for further discussion of this and of other approaches to the 'China Model'.
2 Other varieties include 'BRICK' (K for South Korea), 'BRIMC' (M for Mexico), 'BRICA' (GCC Arab countries – Saudi Arabia, Qatar, Kuwait, Bahrain, Oman and the United Arab Emirates), 'BRICET' (including Eastern Europe and Turkey) and 'BRIICKS' (Brazil, the Russian Federation, India, Indonesia, China, and the Republic of Korea; World Bank 2011).
3 We could have included the European region in the book, featuring important emerging economies such as Turkey and former socialist states (Mawdsley 2012). However, with our interest in highlighting how the pendulum of growth and globalisation has turned South we have chosen to omit Europe in this volume.

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2 The 'rise of the rest' and the revenge of 'development'

The emerging economies and shifts in development theory

Benedicte Bull

In a book from 2001, entitled *The Rise of the Rest*, Alice Amsden argued that the rise of a handful of countries from outside the North Atlantic to the ranks of world-class industrial competitors signified a deep challenge not only to the dominant position of the US and Europe in industrial markets, but to development theory as such. The rest arose by devising a new 'control mechanism' revolving around the principle of reciprocity between the state and companies, thereby transforming the perceived inefficiencies of governmental interventions into a collective good and setting aside insights from trade theory as well as institutional economics (Amsden 2001, pp. 1–14). These were insights that had sought to find the best strategy for encouraging development understood as 'a process of moving from a set of assets based on primary products, exploited by unskilled labor, to a set of assets based on knowledge, exploited by skilled labor' (Amsden 2001, p. 2).

The development strategy of 'the rest' caused a major academic and public debate, particularly challenging the then dominating free-market neo-liberalism. However, it did not fundamentally challenge the definition of development as a process of technological upgrading and industrial growth that had been dominant in the development discourse for decades, a view on development that in this chapter will be called 'developmentalism'.

This view on the goals of development had rather been challenged by a diverse group of scholars and practitioners that had questioned this view. Starting in the 1960s, they criticised the view that economic growth and industrialisation are the principal means to improve human living conditions; that technological upgrading and industrial growth can be sustained without limits; and that such a development is politically neutral and universally desirable.

As a result of this critique, a number of alternative views on the means and ends of development had emerged in the field of development research, with their roots in many different disciplines, epistemologies and political visions. Thus, when 'the rest' rose, development research was a highly fragmented field. Some research and aid institutions were dominated by a neo-liberal discourse neo-emphasising markets free from governmental interference and rejection of the need for a distinct field of development economics or theory; some were focused on reformulating the very idea of development and development

policies in order for them to better address real improvements in the well-being, welfare, prosperity, freedoms and rights of groups and individuals; yet others were concerned with interpreting the dominating development discourse as a part of a North Atlantic geopolitical (and to some, neo-colonial) project, or demonstrating the detrimental environmental or social consequences of development, and seeking to bring about alternative visions of human aspirations for a better life.

In this context, the strategies of 'the rest' had a double impact on development theory and discourse. First, as noted by Amsden, it exemplified a new path towards the goal of development understood as industrial growth and technological upgrading. However, it had a second effect – and that is the argument explored in this chapter – of partially restoring this development concept that had continued to underpin many national development strategies, but gradually lost favour in much theory and discourse from the 1970s onwards. When emerging economies demonstrated that pursuing industrialisation and technological upgrading could lead to sustained economic growth and poverty reduction, it also strengthened a growth and technology-focused theory of development.

However, although the strategies employed are reminiscent of a post-World War II development project, they are pursued in a very different geopolitical context. This is a context in which the emerging economies themselves increasingly influence international development institutions and subsequently also development research and theory. They also increasingly formulate their policies independently of foreign governments or 'experts'.

This chapter discusses the impact that the rise of the emerging economies has had and may have on development theory and research. It starts by discussing the evolution of development theory in the post-war era and the geopolitical context for its emergence. This part emphasises the role of the cold war and the independence struggles as important for understanding not only what theories and discourses came to dominate the discourse, but also the fate of the strategies employed. It moves on to discuss some of its major critics, and the implications for discourse and practice. Finally, it discusses the evolution of development theory in the context of the geopolitical shifts towards a more multipolar world. After this chronological summary of major developments in the field, indicators on the changes related to the rise of emerging economies are discussed. The final section discusses possible future scenarios.

For the purpose of this chapter, development theory is considered to be propositions about the means and goals of development that have evolved through dynamic interaction between normative ideas about what development aims should be, intended and unintended development outcomes and the systematic study of them (Bull & Bøås 2010, p. xiii). Thus, development theory is influenced both on actual implemented strategies and their achievements, ideological and political currents, and on underlying epistemological systems of thought that influence their interpretation.

The multiple origins of the modernisation paradigm

The birth of development studies as an academic field is commonly dated to President Harry Truman's inaugural address in 1949 (Escobar 1995; Sachs 1992). There he called for the western world to share their technology and expertise to bring formerly colonised countries out of misery (Truman 1949). The emphasis on technological progress and how developing countries should replicate the industrialisation, economic growth and increased consumption that had occurred in the West came to mark development studies as well as development strategies in decades to come, and particularly what has been named the 'modernisation school'.

The most cited work of the 'modernisation school' is perhaps Walt Rostow's (1960) 'Stages of growth', where he predicted that what he called the 'backward areas' would have to pass through a predefined set of stages to reach the 'mass consumer society' of the United States and Europe. This would, according to Rostow (1960), only be achieved through massive investments and integration into the capitalist world economy. However, a number of other authors provide much more fine-grained and context-sensitive theories of how to achieve industrialisation and growth in the 'backward areas'. Lewis (1954) provided the first argument for how to transfer underemployed labour with low levels of productivity from a 'traditional' to a 'modern sector', arguing that development requires structural change. A number of others were inspired by John Maynard Keynes with his emphasis on the role of the state in spurring this transformation, assuming that market forces and private actors would be unable to provide sufficient investments for development of the 'backward areas'. The principal debates focused on the appropriate models and processes for spurring a process of industrialisation and growth. Industrialisation and technological upgrading were not questioned as the goals of development (Rosenstein-Rodan 1943; Nurkse 1952).

Rostow's explicit association between anti-communism and modernisation contributed to the critique against modernisation theory for being merely a tool in the US-led cold war against communism and the quest for western world dominance. This critique was later broadened to include the entire 'development project' and development theory as its theoretical-discursive underpinning (Escobar 1995). However, as argued by Eriksen (2013), development studies and theory have actually been more tied to the decolonisation processes and freedom struggles of the 1950s and 1960s than to the geopolitics of the cold war logics and the colonial heritage. Indeed, already in 1955, at the Bandung conference, an economic/technology-focused concept of development was adopted by the newly independent African and Asian countries that met to arrive at a joint platform for development policy. Here it was made explicit that 'development' is mainly an economic issue that focuses on production and accumulation. Private investments and aid should jointly contribute to industrialisation, a process in which technological upgrading was central (Smukkestad 2008, pp. 32–3).

Latin American countries were not present at the Bandung conference. However, under the leadership of CEPAL, it developed simultaneously its own

arguments in favour of industrialisation and technological upgrading. This was motivated by a desire to correct the asymmetries between the 'centre' and the 'periphery' (CEPAL 1951, discussed in Rosenthal 1997). However, it was clearly focused on industrialisation and technological progress and it occurred several years before the Truman speech. Indeed, as argued by Helleiner (2010), the idea of a global development project, and the industrialised countries' responsibility to provide funding for it, was brought up already at the Bretton Woods conference in 1944. The main proponents were the Latin American countries and the underlying concept of development was based on technological advances, industrialisation and growth.

The radical critique from structuralism to post-development

The modernisation paradigm was soon criticised on theoretical as well as empirical grounds. The critique of the premises, assumptions and goals of modernisation was often coupled with a critique of the colonial heritage and geopolitical goals of the 'development project'. Modernisation theory was criticised for imposing a questionable division between the 'traditional' and the 'modern' as a way to distinguish between 'them' and 'us', for portraying development as occurring in a linear and replicable fashion, and – perhaps most importantly – for failing to understand the implications of relationships of dominance (see, e.g. Sørensen 1986; Martinussen 1994; Schuurman 1993 for summaries of the critique).

This set the stage for the diverse contributions that later have been lumped under the headline of structuralism and theories of dependency and underdevelopment. What they have in common is the focus on different aspects of relationships of dominance and subordination between rich and poor countries. 'Backwardness' was not a condition in their view, but rather the result of a dynamic process of underdevelopment. The structuralists did, as the modernisation school, question classical economic theories, but their main target was not their lack of sensitivity to specific conditions in the 'backward countries' but rather the international aspects of these theories, focusing most explicitly on David Ricardo's trade theory, and its errors in predicting the growth potential from trade (Prebisch 1962; Akamatsu 1962).

The Marxist dependency theorists clearly moved further away from the modernisation theories. For example, the neo-Marxist Paul Baran argued that colonisation had prevented industrialisation in the colonial countries, because the profits that could have been reinvested in productive activities were transferred to the centre of the colonial power (Baran 1957). He therefore laid the foundation for dependency theory's comparison of the relationship of exploitation between capitalist and worker to that of the geopolitical 'centre and periphery' (Galtung 1971) or 'meteropoles and satellites' (Frank 1966). This was a clear critique of the idea that in 'dual economies' or 'traditional societies' growth could be created through a shift from the traditional to the modern sector. However, it was not a critique of industrialisation and economic growth as the ends of development.

Yet, there are clear lines to be drawn from the structuralists and Marxist dependency theories to the post-development critique and post-colonialism. As Fernando Coronil (2004, p. 223) has argued, 'the dependency school represents one of Latin America's most significant contributions to postcolonial thought'. The post-development project continued the critique against the relationships of dominance in the development project, but it is even more a critique of intentions, the worldview it is based on and its discursive power (Escobar 1984). The 'development discourse' is considered to be first and foremost a 'western religion' and a tool to promote westernisation and cultural homogeneity (Pieterse 2000). Thus, in the words of Sachs (1992, p. 3), 'it is not the failure of development which has to be feared, but its success'. Thus, this clearly also includes a critique of the goal of development as industrialisation and growth.

The post-colonial critique seeks to reveal the false stories that colonialism in its many forms – including the development system – is based on. Post-colonialism focuses on the continuity between colonialism and development, and the ways in which knowledge about the oppressed and dispossessed creates images of societies, human beings and cultures as inferior (Mbembe 1992; Kothari 2005). Post-colonialism is based on disciplines that are relatively 'new' to development, such as literature studies and philosophy (e.g. Said 1977; Dussel 1993). Among what could be considered to be its forerunners we find theologians/pedagogues (Freire 1970), and a psychiatrist (Fanon 1963). They criticised how the effect of colonialism goes much deeper than just the conquered society's political and economic structures, and also included imposition of culture, attitudes and knowledge on the conquered people.

Industrialisation and growth was considered a part of the multiple layers of domination of non-western societies and the violent imposition of a western mind-set and social structure. Post-development and post-colonialism were thus also arguments for more nuanced views on the goals of development and new ways to conceptualise (and measure) improvement in human living conditions. While never dominating in major global institutions such as the World Bank or the UN organisations, this critique, I would argue, contributed to the strong critique against industrialisation and economic growth as goals of development, and the search for more adequate measures. As such, it also contributed to a fragmentation of the field that was evident from the early 1970s.

The diversification of development paths and actors

In the years between 1970 and 2000, the field of development theory expanded in so many directions and came to include so many disciplines and perspectives that it became difficult to discern its core.

In a highly simplified way, development theory in the decades between 1980 and 2000 can be characterised as a process of struggle and accommodation between two forces. On the one hand, from the 1980s, there were governments, businesses, international organisations and intellectuals – often lumped into the neo-liberal category – that argued for a continued focus on growth and

modernisation, but rejected the developmentalists' focus on knowledge, technology and industrialisation. Moreover, in a perverse twist on the modernisation schools' belief in linear evolution, they saw development as an immanent process in all societies that would naturally take place if hindrances were removed. They thus rejected the developmentalists' notion of development as a purposeful process pursued by development actors, first and foremost the state, and considered it rather a natural process that would unfold if state interventions were removed and the market were allowed to regulate prices and encourage entrepreneurship (Kruger 1990; Williamson 2000; WDR 1996).

On the other hand, there were activists, researchers, politicians and policy makers advocating for finding new ways of conceptualising the goal of development. While not necessarily rejecting growth and industrialisation, they pointed to its limits, both environmental limits and the limitations of this concept in terms of depicting human progress.

Four important early contributions that led to this diversification of goals were the environmental critique, the gender critique, the 'basic needs' critique and an argument for including notions of political freedoms and democracy as a goal of development. The environmental critique was first seriously voiced following the United Nations Conference on the Human Environment in Stockholm in 1972, which set off a long and broad debate about the relationship between the environment and development. Although development was given precedence both in the Stockholm declaration and in the one following the Rio conference in 1992 (WCED 1987), this opened for a parallel debate about the absolute limits to growth and industrialisation, and led to a decrease in the faith in technology, as, for example, in the critique of the so-called 'green revolution' (Shiva 1991; Pimentel 1996).[1] This perspective gained salience with the increasingly obvious impact of climate change on development, reaching the global debate after the establishment of the Intergovernmental Panel on Climate Change (IPCC) in 1988 and its subsequent publication of reports, and seriously entering the development debate with the Stern report (Stern 2006; see also WDR 2010).

The more critical environmental studies drew inspiration from the radical (often Marxist) development theory, and crystallised in the political ecology perspective that seeks to understand how relationships of dominance, particularly those inherent in capitalism, impact on and are influenced by the relationship to nature (Peet *et al.* 2010; Bryant & Bailey 2005). For the political ecologists, the result of unfettered capitalism is exploitation not only of workers, but also of natural resources and the environment, which are often critical for the livelihood of poor people. Exploitation of people and nature is viewed as an integral part of the same model that previously would be considered to be 'development', and thus the search for new goals of development is urgent.

Another main critique of 'development' was that focusing on gender, following Ester Boserup's groundbreaking studies of the shift in the relationship between male and female farming systems as a result of development interventions (Boserup 1970). Boserup's study was followed by a variety of studies of the

reconstruction and re-valuing of gender roles and social distribution of labour as a result of development processes. While not necessarily rejecting industrialisation and growth, increasingly gender studies joined the post-colonial critique in contesting key premises, particularly of development interventions and development (Parpart & Marchand 1995), and advocated for a gendered analysis of results in general (Kabeer 1991; Jackson 1993).

A third main critique focused on the reduction of absolute poverty as it attempted to define the absolute minimum resources necessary for long-term individual well-being (Streeten 1984). What was first known as a 'basic needs strategy' was expanded and refined in many ways, perhaps most notably in UNDP's Human Development Index (HDI) introduced in 1990 under the leadership of Mahub Ul-Haq with the explicit purpose 'to shift the focus of development economics from national income accounting to people-centered policies' (UNDP 1990). Ul-Haq was a former sharp critic of the Limits to Growth (Ul Haq 1972) for its lack of people-focus. He developed the HDI with a group of colleagues, including Amartya Sen, whose concept of development based on expansion of individual freedoms and the ability to live a life in accordance with one's own valued goals had lasting impact on the debate (Sen 1991).

This was further elaborated in the multidimensional poverty index, developed jointly by the UNDP and the Oxford Poverty & Human Development Initiative that sought to elaborate different aspects of human deprivation, not only the economic (UNDP 2010). Nevertheless, as Sen's line of thinking insisted on the existence of a universally measurable human progress (Sen 1991), he continued what in the post-colonial critique had been called a western enlightenment project, closely associated with colonialism.

The idea of development as freedom also tied in with the increasing debate about the relationship between politics and development. The early development theories problematised state policies, but rarely the state itself. The main question exploited in the *political development* literature was whether a certain level of economic development and human capabilities (education) would be necessary in order for a well-functioning democracy to work. There were also a number of general macro studies that sought to investigate the causal relationship between democracy and development (Lipset 1959; Almond & Verba 1963). However, it was not until the 1990s that 'good' democratic governance came to be seen as an integrated part of a desirable development process and thus also something that should be supported by aid. Such aid came to include both support for the strengthening of political institutions, and conditionalities regarding policy-making processes' respect for human rights and political freedoms. While having an institutional focus, it also implied a shift towards a 'bottom-up' idea of development since a key idea was that, if institutions allowed people's voices to be heard, they would themselves advocate for policies that would improve their lives.

Yet, the governance agenda also had many other aspects. The first and perhaps strongest influence came from institutional economy arguing for an

efficient, regulatory state able to 'level the playing field' and reduce 'transaction costs' for economic actors (North 1989; WDR 1997). This grew directly out of the many contradictions and problems produced by the attempts at implementing neo-liberal economic policies in states with extremely weak capacity to regulate newly liberated markets, leading to the formation of new monopolies and inefficiencies undermining the purpose of neo-liberalism. As a result, the focus moved towards institutional strengthening and the restructuring, rather than rolling back, of the so much despised state-led development.

Although many of the views sketched above were contradictory and in conflict, there was also a continuous process of accommodation between different viewpoints and an expansion of the development agenda. One of the main results was an increasing number of more specific, often individualised development objectives. While some were formulated as explicit goals (e.g. sustainable development, pro-poor growth, participatory-development), others remained as 'checklists' in development projects that increasingly, according to the aid-jargon, resembled Christmas trees: with a core (the trunk) and with 'gender balance', 'environmental impact assessments', 'poverty reduction', 'participation', etc. as ornaments. However, this incorporation also led to a certain depoliticisation of development. The dominant logic of development was in accordance with neo-liberalism: markets should be the driving force and states were to facilitate their evolution, while additional policies should ensure the fulfilment of other social goals.

Thus, while neo-liberalism did not uniformly lead to deterioration of living conditions or the end of development, it did signal the demise of the Third World Project as it was formulated in the Bandung conference and the following NAM movement. This had sought not only the improvement of living conditions according to a set of indicators, but development through a shift in the global power balance in favour of the Global South (Prashad 2013). While not along the lines of the Bandung conference, the 'rise of the rest' has contributed simultaneously to the shift towards a multipolar world, and to development as a state-led process leading towards technological upgrading, industrialisation and growth. The question is whether, by the same token, it ignores the multifaceted critique of it discussed above.

The 'rise of the rest' and the return of growth and modernisation

When 'the rest' first arose in the late 1980s, much energy went into attempting to 'fit' their experiences into the frames of neo-liberalism. The rapid growth of the so called Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) was first interpreted as confirming the neo-liberal theories on the advantages being incorporated into a world market. It was also interpreted as defeating the dependency schools' doomsday predictions for any country that played along with the rules of the global market. However, soon other interpretations emerged on how not only specific industrial policies, but also specific

institutional structures and features of the state–society relationship of the so-called 'developmental states' (see Masina, Chapter 4 in this volume) explained the success in technological upgrading and industrialisation (e.g. Amsden 2001; Wade 1990; Woo-Cumings 1999; Evans 1995).

At the same time as these researchers pointed to the fundamental processes behind the high-growth economies in East Asia, the aid and development institutions continued to distribute aid to a diversity of individual development goals. This was perhaps most strongly expressed in the Millennium Development Goals (MDGs). With their measurable indicators on a series of concrete development objectives, they managed to establish a global consensus perhaps precisely because they do not enter into the question of how to reach the goals. As such, they expressed the full turn-around from the early 1950s: from naming a specific economic structural transformation 'development' towards using that name for a number of measures of progress at the individual level.

As one entered into the final period of the MDGs, the significant progress that had been made on a number of them was celebrated widely in development institutions. The number of extreme poor (living on less than $1.25 a day) fell from 47 per cent in 1990 to 22 per cent in 2010; the percentage of undernourished people in developing countries decreased from 23.2 per cent in 1990–92 to 14.9 per cent in 2010–12; child mortality rates dropped from 87/1000 births in 1990 to 51/1000 births in 2011; the percentage of children in school increased from 82 to 90 per cent and the increase was from 58 to 76 per cent in Africa South of Sahara between 1990 and 2010, to mention some indicators (United Nations 2013).

While the main development agencies insisted that the significant improvements were the results of innovative social policies and investments in individual capabilities (e.g. UNDP 2013), this was not necessarily the lesson that the majority of poor countries took home. Rather, many sought to emulate the policies of the main 'emerging economies' that showed increasingly impressive results. While nobody outperformed China's average growth of 9.2 per cent between 1990 and 2010, several other countries in Asia, Africa and Latin America did grow substantially, particularly between 2003 and 2008, but also picking up quickly after the 2008–09 financial crisis. Moreover, after decades of a declining share of world industrial output accounted for by the developing countries, it started to increase around 2000, and so did the share of income as well as share of global trade. Between 1980 and 2010, 'the South' increased its share of world merchandise trade from 25 per cent to 47 per cent and its share of world output from 33 to 45 per cent. For the first time in centuries, in 2013 the combined GDP of leading emerging economies – Brazil, China and India – was about equal to the combined GDP of the long-standing industrial powers of the North – Canada, France, Germany, Italy, the United Kingdom and the United States. By 2025, the South is assumed to account for three-fifths of the one billion households earning more than $20,000 a year (UNDP 2013). Moreover, while the so-called advanced economies experienced a 1 per cent decline in average annual productivity growth between 1990 and 2010, the rest of the

world saw a 5 per cent increase. Although much of this is due to Asian productivity growth, the rest of the world is also catching up (The Conference Board 2014). Thus, the main lesson that many poor countries that still lagged behind took home was a renewed belief in deliberate strategies of growth and industrialisation and their positive impact on poverty reduction.

The concurrences between high growth and industrialisation rates and significant reduction in poverty should not of course immediately be taken as proof of a causal relation. For example, it was shown that, whereas most of China's impressive growth is accounted for by urban industrial growth, poverty reduction has largely occurred in rural areas and is mainly due to improvements in smallholder farming (Li 2013). Thus, it is not 'development' defined as moving labour from low-productivity agriculture to high-productivity industry that explains poverty reduction but rather the improvement in productivity in the agricultural sector.

Nevertheless, old development concepts such as 'structural change' and industrial policy got a renaissance after having been rendered marginal in the development debate during the 1980s and 1990s. For example, the UN Economic Commission for Latin America and the Caribbean (ECLAC) devoted three landmark reports to the need for a thorough structural change bridging the productivity gap in order to sustain the improvements in poverty rates and attack what increasingly emerged as a key challenge to societal progress, namely inequality (ECLAC 2010, 2012; HDR 2010; UN Task Team 2012; WDR 2006). Especially in Latin America a new re-integration occurred in development theory: Poverty and inequality were no longer viewed as separate fields of development interventions, whereas economic growth and industrialisation was considered better left to the market. Rather these were considered mutually interdependent and integrated parts of the same development model.

Although far from generalisable, a new trend could be seen wherein the poorer developing countries were emulating the 'emerging economies' by placing a stronger focus on economic growth, and industrialisation and often with a strong role for the state. In many countries, such growth strategies are fuelled by the export of raw materials – that has been reinvigorated precisely due to China's increased demand. Thus, China and a few other countries are role models for the poorer developing countries and have legitimised a new focus on growth rather than individual development indicators. However, particularly China has also facilitated increased policy space for many countries. This increased independence has been reached in two ways: first, commodity revenues filled state coffers in poorer countries when Chinese demand increased prices, and second, China has provided large non-conditional loans and investments from China to poor countries in Africa and Latin America, and regional powers such as Brazil have done the same in their home regions.[2] In sum, this allowed many developing countries more independence from powerful development institutions such as the World Bank and the IMF, something which has opened up for strategies that contradict the strategies recommended by them.

Conclusion: development theory and the new geopolitics of development

The shift in development strategies described above could be considered a return to the core of what 'development' was considered to be in the early post-World War II period, including massive investments in infrastructure and technological upgrading and a strategic use of global markets. This trend was also reflected in theory, as exemplified in the publication of titles such as *Towards New Developmentalism* (Khan & Christiansen 2011) and 'Reviving the Developmental State' (Chibber 2004), focusing on how state-led growth and industrialisation strategies led to poverty reduction and welfare increases.

However, as opposed to the post-World War II period, the strategies are launched in the context of a shift in the global geopolitical power balance wherein the North Atlantic hegemony is increasingly weakened. Moreover, the development strategies are in many cases launched explicitly as parts of nationalist projects and geopolitical struggles wherein industrialisation and technological upgrading are considered to be integrated parts.

What will this mean for the future? Where does it, for example, leave decades of research and theory on the relationship between development and the environment? Three predictions seem warranted: The first is that the fragmentation of development research as an academic field will continue, and there will be an increasing disconnect between theory, discourse and strategies. For quite some years, development theory has been an academic field in search of a theoretic and disciplinary core. However, since the field of research originates in a political project rather than an academic discipline and that project is history, this search has been difficult. As shown in this chapter, it has been hampered by the continuous addition of perspectives, disciplines and competing political views. The constant has been the existence of western aid institutions that have sought to support development theory in finding better ways to channel funds to reach development goals. As development strategies increasingly may be driven by nationalist projects and geopolitical struggles that will happen independently of western aid and policy recommendations, the last remnants of a theoretical core may also disappear. Thus, we can expect increasing fragmentation and a strengthening of the features of development theory as one of the few academic fields where flat earth manifestos and gravity theories live happily side by side.

The second is a possible deepening of the development conflicts. If we are to extract one lesson from the decades of critique of development as industrialisation and technological upgrading, it is that such a process is never without conflicts and downsides. The impact of development on gender relations, the democratic challenges that are often related to industrialisation and technological upgrading processes, and the impact on local communities of this development will be no less urgently felt when the development is funded and led by emerging economies than when they were dominated by western powers. This has already resulted in numerous conflicts over natural resources (minerals, oil,

gas, etc.), over control over local spaces, and over transparency, democratic participation and distribution of resources in emerging economies. Thus, it is clear that growth and industrialisation no more resolve all development concerns today than they did in the 1950s and 1960s and are likely to produce new conflicts.

The third is that the governance of key global institutions will become increasingly out of sync with the underlying distribution of power and possibly development strategies adopted by development nations, a matter which may lead to their irrelevance. The World Trade Organisation is currently headed by a Brazilian, the UN by a South Korean and the World Bank by American-Korean Jim Yong Kim. Nevertheless, as argued by Robert Wade, the old G7 still dominate the multilateral system, and the United States remains the dominant state (Wade 2011). This is also reflected in their main lines of development thinking that emphasise the development of liberal market economies and parallel specific policies to reach a number of social goals. Several of the main development institutions also increasingly advocate climate policies and more sustainable paths towards growth (although this by no means reflects the current strategies of the main powers). This seems increasingly at odds with the strategies that are applied by emerging economies from Vietnam to Brazil. Thus, while the world currently is seeing more 'development' than ever before, both development theory and the development institutions that emerged and grew during the last half of the twentieth century may become increasingly side-lined.

Notes

1 For the main justification for it, see Borlaug *et al.* (1969).
2 For example, for the year 2010, China's loan commitments to Latin America amounted to $37 billion, more than those of the World Bank, Inter-American Development Bank and United States Export-Import Bank combined for that year (Gallagher *et al.* 2010). However, although China was the major new actor globally, other countries also played increasing roles in their neighbourhoods. The loans emitted by the Brazilian development bank BNDS in 2011 totalled $68 billion compared to the combined loans of the World Bank (IDA and IBRD) of $43 billion the same year.

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3 Making sense of sustainable development in a changing world

Desmond McNeill and Harold Wilhite

The report of the World Commission on the Environment and Development (WCED) (titled *Our Common Future*, commonly referred to as the Brundtland Report) defined sustainable development as 'a development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (WCED 1987, p. 43). The concept has been much debated and criticised (e.g. Redclift 1992; McNeill 2000) and numerous alternative definitions have been proposed (e.g. Pezzey 1992; Robinson 2002). No consensus has been – or is likely to be – reached on any better definition; in part because for most people the concept is normative. What is clear is that the central issue is the potential, or actual, conflict between development and the environment, and hence between the interests of present and future generations.

Since the 1990s, it has been common to distinguish between three dimensions of sustainable development – economic, social and environmental – as summarised in the ESD triangle of the World Bank (Serageldin and Steer 1994), or the definition used by OECD (2001) that sustainable development 'embodies a concern for taking a broad view of what human welfare entails, and for balancing the goals of economic efficiency, social development and environmental protection'.

Much discussion, both theoretical and practical, has revolved around the trade-offs between the three dimensions – economic, social and environmental – of sustainable development. While 'the economic dimension' can include economic growth as well as industrialisation and diversification of the economy, this chapter interprets the economic dimension narrowly – to refer simply to economic growth; while the social dimension covers the issue of equity as well as other social issues such as identity and cohesion.

In particular, there has been a heated 'economic-environmental' debate reflecting a range of different viewpoints concerning 'weak' versus 'strong' sustainability (see Brekke 1997; Pearce and Atkinson 1995). Weak sustainability refers to the view that natural resources can – at least to some extent – be substituted by human-made resources. 'Strong' sustainability challenges the substitutability of different types of capital (environmental, economic and, according to some, social capital), and requires that minimum amounts of the

former should be independently maintained. The various positions are well summarised by von Braun (2012), who distinguishes four different sustainability concepts: very strong (Deep ecologists), strong (Cautious ecologists), weak (Ecological touch) and very weak (Growth optimists). Here, we will adopt an intermediate position between the extremes of 'weak' and 'strong' sustainability, interpreting environmentally sustainable to mean avoiding the risk of major ecosystem disruption.

The relation between economic growth and the environment has been described by some in terms of an environmental Kuznets curve – an inverted U-shaped relation (Grossmann and Krueger 1991; Stern *et al.* 1996). The hypothesis (and indeed the name) in fact derives from a similar debate long before the concept sustainable development was introduced, concerning the trade-off between economic growth and equity. It was claimed (Kuznets 1955) that, as income levels in a country increase, they first become more and then less unequal. According to this view, as the economy grows, the environmental conditions initially deteriorate; but, beyond a certain point, subsequent economic growth can be used to counteract environmental degradation, so that conditions improve again. There are, however, critical arguments that this supposed relation between economic growth and the environment does not hold (Arrow *et al.* 1995); that the empirical evidence is weak and very sensitive to the econometric techniques that are used (Dinda 2004; Galeottia *et al.* 2006; Stern *et al.* 1996). It is certainly arguable that pollution is a very different type of environmental challenge than the use of non-renewable resources or destruction of biodiversity, and that the environmental Kuznets curve hypothesis is valid only for the former.

Another criticism of the environmental Kuznets curve is that the improvement of environmental quality in rich nations may be associated not only with a greater degree of awareness, and changing pattern of demand, as incomes increase, but also the transfer (or externalising) of costs from rich to poorer countries. On a global scale, flexibility in the allocation of resources and increasing interdependence of markets has facilitated a remarkable process of redistribution of economic activities between countries, leading in many cases to what is known as 'ecological dumping' (and also 'social dumping'). The most obvious manifestation of this is the export of hazardous waste from rich to poor countries. A more subtle example is the import of logs from countries where deforestation is excessive to rich countries where forest cover is stable or increasing.

One approach to measure the environmental impact of humanity on the globe is the ecological footprint. Developed by Wackernagel and Rees (1996), this expresses the environmental pressure of production and consumption in terms of land area. Thus the footprint measures the geographical area per person (in global hectares per capita) needed for production and consumption; the areas being aggregated at the country level. Pollution and climate gas emissions are factored into the footprint. The size of the ecological footprint tends to rise with increasing national income, eventually flattening out at higher levels. But

the ecological footprints of countries in the North are well in excess of one (the point at which human activity exceeds environmental carrying capacity), indeed more than four in most cases; such levels of consumption are completely unsustainable if all countries sought to achieve them.

In summary, despite awareness of the environmental damage that is involved, the rich countries of the world have levels and patterns of consumption well in excess of what the planet can bear. The economic growth of rich countries is being fuelled by displacement of production to poorer countries, which thereby depletes their non-renewable resources and generates pollution that accompanies industrial production. The development path being followed by most, perhaps all, countries of the world is clearly unsustainable. But there are no examples of an adequate response to this challenge.

The most ambitious international effort to address global environmental issues, including climate change, was made in the wake of the report of the World Commission on the Environment (the Brundtland report) in 1987. The report's strong message on the need for deep socio-political change in the light of climate change and other critical environmental problems gained considerable international attention. It formed a mandate for the World Conference on Environment and Development (WCED), the first of its kind, held in Rio de Janeiro in 1992. World leaders assembled to draw up conventions on crucial environmental issues, including biodiversity and climate change. The Brundtland report put forward a strong argument for dramatic reductions in global carbon emissions (60 per cent over a quarter century) and argued that the greatest responsibility for reductions should be borne by the developed countries (80 per cent reductions). In the discussions leading up to the summit, however, the ambition to meet these targets gradually declined. In place of the 80 per cent implied by the Brundtland report, the pre-negotiating position of the developed countries was a mere 20 per cent reduction over 20 years. By the time the conference actually started, this figure had been lowered to 15 per cent. As a consensus on this target began to emerge among the majority of participants, the negotiations were stalled and eventually blocked by the USA in a dispute over the numbers but also a dispute – which continues to the present – on whether the countries of the South should make reduction commitments. The less developed countries, led by India, felt they should be exempted from targets because they had extremely small historical carbon emissions and still faced enormous development challenges.

Subsequent efforts to come to a global agreement on CO_2 reductions have had progressively lower ambitions. The Kyoto Protocol of 1995 set national reduction goals for the signing parties (which did not include, for example, USA, Russia and China) at between 5 and 8 per cent reductions. The most recent (Rio + 20) conference in 2012 gave up entirely on a global CO_2 reduction goal and fell back on a vague resolution to increase the pace of diffusion of green technologies. Over this same period of decreasing commitment, the evidence for the relationship between carbon emissions and climate change has become still stronger. Lack of international cooperation with regard to climate

change can, perhaps, be readily explained: this is a classic example of the free rider problem, where no one country will significantly benefit from reducing emissions unless all the major emitting countries also do so (exacerbated by the fact that latecomers can legitimately argue that they bear less responsibility for historical emissions). But why is there also so little action at the national level, to promote development that is environmentally sustainable? In the next section, we argue that the primary reason is the growth imperative that dominates thinking about progress and development at every level of society from national government to household. Despite growing evidence of impending ecological crisis related to climate change, national governments, no matter how rich the country, have not seriously challenged the economic growth imperative. We will argue that in recent years, 'green economics' has been promoted as the means to reconcile economic growth and reduced environmental impact, most notably at the Rio + 20 Conference in 2012, but there is little reason to believe that this is a credible solution.

Why sustainability has failed

Why this lack of commitment to a low-carbon transformation – and, more generally, to a more environmentally sustainable development? The answer to this was encapsulated in an unusually candid remark during the Rio negotiations by then President George Bush: 'The American way of life is not up for negotiation.' He understood quite well that the use of fossil fuel energy permeates every aspect of daily life in the developed countries, from industrial production to virtually every domain of household consumption, including food, shelter, cleaning, travel and recreation. A commitment to significantly reduce carbon emissions would involve a transformation of these highly valued and carbon-intensive contributions to the American 'way of life'; something Bush and other national leaders were not willing to commit to. This reluctance with regard to carbon reductions contrasts with a willingness to act on some other global environmental problems of the 1980s, notably acid rain and ozone depletion. These problems could be resolved through regulating industries, end of pipe 'scrubbing' of pollutants and replacing problematic chemicals with less harmful ones. None of these changes seriously affected everyday lives of ordinary citizens. Nevertheless there were political challenges, and it is interesting to study why industry suddenly turned around on the ozone issue (Levy and Newell 2002).

Combating climate change through a transition from high to low energy use in the rich OECD countries would demand a radical change in the politics and practices related to economic and social development. It would challenge the fundamental axioms of economic growth and free markets, both of which are deeply embedded in the political economies of the rich countries of the world and, as several of the chapters in this volume will explore, have rapidly penetrated the political economies of the emerging economies. In North America, Europe and increasingly in emerging economies such as China, India and Brazil,

the association of wellbeing with economic expansion and free markets is promoted by and for every societal level and sector, from business to household. The development paradigm was encapsulated by Max Weber (as paraphrased by Welzer 2011, p. 24):

> a model of the economy, society and the subject that … relentlessly promotes productivity increases; a fuel that keeps the machinery running; and a form of civilization that endows all of its members with a biographical model that stipulates interminable, self-transcendent growth.

This development paradigm embodies a vision of the future that is incompatible with sustainability. Aside from a few nationally commissioned studies to explore the way economic growth is measured (France), or the consequences of low growth or no growth economics (Great Britain and Germany), the axioms of current development have not been seriously challenged by national governments in the rich OECD countries. Belief in unfettered growth, free markets and increased productivity has also penetrated international development models and agencies (Klein 2007).

These axioms of development have persevered despite ample evidence that the environment continues to degrade and global social imbalances remain unaddressed. Carbon emissions have increased by 80 per cent since 1970 and 40 per cent since 1990 (Jackson 2009, p. 69). One-fifth of the global population earns 2 per cent of the global income, while the richest 20 per cent earns 75 per cent (ibid.). The doctrine of unlimited growth and free markets has persevered despite powerful theoretical critiques not only from an ecological perspective, but also from neo-Marxists and other social theorists such as Karl Polanyi (2001). Ironically, as Polanyi argued in his seminal work *The Great Transformation*, the 'free market' has probably never existed in any society; the functioning of markets in fact depends on a state-generated legal framework and the strict public regulation of private property, national currencies, legal contracts and credit markets.

There is no greater hindrance to a sustainable transition than the deeply held view that economies cannot thrive unless they grow. If the global economy continues expanding at the current rate of 4–5 per cent per year, it will be 80 times bigger in 2100 than it was in 1950 (Jackson 2009). It is absurd to imagine than the global ecosystem can continue to thrive, or even survive, given the massive demands on resources or the wastes generated by an economy of that size. Yet to tamper with growth is to tamper with one of the imperatives of market-based economies. Historically, geographic expansion sustained growth in North America and Europe through colonialism, international trade and transnational investment. More recently, temporal expansion enabled by credit-based production and consumption has allowed economies to grow through mortgaging the future, permitting the continued exploitation of material resources in the form of land, fuels and minerals, as well as driving continued increases in pollution and carbon emissions (Welzer 2011). As Welzer writes, the growth axiom leads

to the current thinking that 'if oil is in short supply, drill deeper; if water is scarce, desalinate the sea; if fish stocks are dwindling, travel further out' (2011, p. 31). In short, the politics of expansion have put persistent and accumulating pressure on the environment.

In the past decade, the contribution of the economic growth to increasing ecological degradation has been the subject of an increasing crescendo of academic critique from a wide range of authors and disciplines (see, for example, Jackson 2009; Prugh *et al*. 2000; Patel 2009). In the recent 'State of the World' report by the World Watch Institute, entitled *Is Sustainability Still Possible?* (WWI 2013), an impressive set of authors state decisively that a significant reduction in the environmental impacts of economic activity will not be possible within the economic growth paradigm.

The macro-economic imperatives are mirrored at the level of households and individuals. Despite strong empirical evidence that happiness does not increase with income, it appears that the expectations of the great majority of people are for ever-increasing levels of consumption (Easterlin 1974). Promoting austerity is not favoured by politicians wishing to get re-elected. This is the dilemma. To quote George Monbiot (2003, n.p.):

> The only rational response to both the impending end of the Oil Age and the menace of global warming is to redesign our cities, our farming and our lives. But this cannot happen without massive political pressure, and our problem is that no one ever rioted for austerity. People take to the streets because they want to consume more, not less.

Given the nature of national politics, rekindling interest in sustainable development will be difficult – especially given the recent economic recession and the ensuing debates which are mainly concerned with 'restarting' economic growth and immediate issues of increasing commercial competitiveness and providing jobs. However, there is a growing academic consensus that a paradigmatic change in the national politics of growth is an ecological imperative.

The general unwillingness of leaders to promote sustainable development – in practice – is related to an unwillingness to explore alternatives to growth, which is in turn related to the short time horizon that typifies the political world. Long-term benefits which impose short-term costs are not easy to 'sell' to the electorate. Rather than leading, politicians seem, if anything, to be lagging behind public opinion. In some countries, there have been voices for change – from the urban middle classes, for example, or civil society more generally – manifested in new 'Green' parties. But these have generally had only limited influence.

In recent years, 'green economics' has come to replace sustainable development as the means to reconcile the twin objectives of economic growth and reduced environmental impact (Wilhite and Hansen in press). Indeed, this was the main message of the Rio + 20 Conference in 2012, which many regard as a retrograde step in relation to Rio + 12:

> We affirm that there are different approaches, visions, models and tools available to each country, in accordance with its national circumstances and priorities, to achieve sustainable development in its three dimensions, which is our overarching goal. In this regard, we consider green economy in the context of sustainable development and poverty eradication as one of the important tools available for achieving sustainable development and that it could provide options for policymaking but should not be a rigid set of rules. We emphasize that it should contribute to eradicating poverty as well as sustained economic growth, enhancing social inclusion, improving human welfare and creating opportunities for employment and decent work for all, while maintaining the healthy functioning of the Earth's ecosystems.
>
> (UNCSD 2012, para. 56)

Green economics emphasises the resolution of environmental problems through increased technical and economic efficiency, while retaining the aims of a growing and (geographically) expanding economy. For an increasing number of rich countries in North America and Europe, including Scandinavia, the argument is that economic efficiency, delivered through free markets, will offset the negative environmental effects of economic growth and deliver sustainability. These precepts of green economics are closely associated with those of 'ecological modernisation', a theory and policy framework for environmental sustainability based on the pillars of green technologies and free markets (Spaargaren and Mol 1992; Huber 2008). Ecological modernisation under-estimates, or even neglects, the challenges of reducing environmental damage in a growth economy (see Gibbs 2006 and Baker 2007). In fact, by some proponents, growth is portrayed as not merely compatible with the environment but actually capable of enhancing it, the argument being that growth will provide the capital necessary to address environmental problems (Hajer 1995). An early critic, David Pepper (1998, p. 5) referred to ecological modernisation as 'market environmentalism', characterised by weak regulatory approaches and dependent on voluntarism from the corporate sector. Robertson (2004) and others have shown how ecological modernisation has been seamlessly incorporated into corporate rhetoric and into global development institutions without significant changes in practice.

Recent contributions from ecological modernisation theorists (Mol *et al.* 2009) have postulated that the greening of government and businesses will extend to social practices in communities and homes. We agree with the arguments of Hudson (2009) and Davies and Mullin (2011), who write that it is doubtful that ecological modernisation, with its emphasis on transformation through resource-efficient technologies and markets, has the capacity to either theorise or encourage changes in social or collective practices.

Many emerging economies are buying into the economic and technical efficiency arguments of green economics and ecological modernisation (see Knutsen and Ou, Chapter 5, and Scott *et al.*, Chapter 15 in this volume). There

have in fact been significant increases in efficiency in OECD countries (use of material resources per unit of GDP). The global energy intensity is now 33 per cent of what it was in 1970. Energy intensity in both the US and the UK is 40 per cent lower than it was in 1980 (Jackson 2009, p. 69). But there are no examples of countries that have reduced either their energy use or their ecological footprints over the same period. From a climate change perspective, footprints are increasing. Global carbon emissions have increased by 80 per cent since 1970 and 40 per cent since 1990 (Jackson 2009).

These empirical findings on the limitations of increased efficiency should be a wakeup call for the promoters of green economics. Increased production efficiency will continue to do what it is intended to do in a free-market economy: free up capital for investments in further expansion. For industries, cutting the cost of inputs, seeking cheaper sources of raw materials and labour and acquiring energy-efficient technologies are all strategies used to increase profits and to expand the scale of production. For consumers, the consumption of energy-efficient products frees up money for more consumption of the same service (such as transport, space heat or hot water) or the consumption of other products that also use energy, thus negating the energy savings of the original purchase (Winther and Wilhite in press; Foster *et al.* 2010; Brannlund *et al.* 2007; Frondel *et al.* 2012; Sorrell *et al.* 2009). It is difficult to imagine how these 'rebound effects' will be eliminated in a growth-oriented economy. Eric Ringmar (2005, p. 3), in his book entitled *Surviving Capitalism: How We Learned to Live with the Market and Remained Almost Human*, writes that 'Societies are being reorganized in the image of the market. Efficiency, rationality and productivity are to characterize ever more of what we do, and what cannot be justified in such terms should disappear.' In a recent series of books and articles, Tim Jackson (2012, p. 1) argues that one step in a sustainable 'reorganisation' of the economy would be to reduce our obsession with efficiency and productivity. He writes that:

> We've become so conditioned by the language of efficiency. Output is everything. Time is money. The drive for increased labour productivity occupies reams of academic literature and haunts the waking hours of CEOs and Treasury Ministers across the world. But there are places too where chasing labour productivity doesn't stack up at all. What sense does it make to ask our teachers to teach ever bigger classes? Our doctors to treat more and more patients per hour? Our nurses to rush from bed to bed and no longer able to feel empathy and offer comfort. Compassion fatigue is a rising scourge in the caring professions, hounded by meaningless productivity targets [...]. In short, achieving a green economy may be less to do with 'sustained growth' and technological utopianism and more to do with building an economy of care, craft and culture.

The green economy concept is relying on the same drivers of transformation as those which have brought the world to the brink of environmental catastrophe.

It proposes a green 'twist' on growth, efficiency and free markets. A rethinking of these three axioms of conventional development constitutes an enormous challenge in societies in North America and Europe where several generations have lived with deeply embedded ideas about the association of productivity and efficiency with the good life and social achievement. This association has contributed to what Robbins (2004) refers to as the 'culture of capitalism' in the USA, a trend that can also be observed in other countries (Wilhite and Hansen in press). In, for example, India, productivity, efficiency and time management have not historically been essential aspects of culture, but global interconnectedness and transnational capitalism are contributing to changes. Wilhite (2008) writes about how social valuation of frugality, product longevity and reuse are dissolving in India the wake of its 'opening' to the global economy in the early 1990s. One of the dominating themes in product advertising in India is how this or that product will save time, improve time management and bring social affirmation.

Welzer (2011, p. 38) is one of many scholars who are sceptical about the ability of national governments to bring about the sea change necessary for the sustainable transition. He writes:

> The goal is to devise an exit strategy from growth, not to preserve a cultural practice that undermines our own survival conditions. Such strategies are not the types that can be developed in the usual ill-fated coalitions of 'experts' and policymakers. To invent a post-growth society is a project for civil society; its realization cannot be delegated.

We can draw inspiration from growing community-based efforts to promote sustainability. Many of these are joining global networks of communities such as the 'Transition Movement' (originally called Transition Towns). In 2009, there were 134 communities officially registered as members of the Transition Movement (Scott-Cato and Hillier 2010). In order to be eligible to join the movement, a community must commit to adherence with certain principles involving both participatory planning and an aim to be less environmentally intrusive. Implicit to the movement is an alternative political economic framing that is 'non-capitalist' (Hopkins 2013), yet incorporates a positive vision rather than one of denial or simplicity. These transition communities are islands of sustainable practice and represent new forms for a micro-politics of sustainability that is rapidly increasing in scale.

Another source of change from below can be attributed to the growing interest in collaboration, in part stimulated by Internet-based networks that specialise in non-market exchanges, such as exchanges of used goods, sharing of housing, car sharing and other creative forms of exchange (Levine 2009; Botsman and Rogers 2011; Attali and Wilhite 2001). In a recent book entitled *Together: The Rituals, Pleasures and Politics of Cooperation*, Sennett contends that these forms of cooperation are natural to social interaction but have been repressed by what he calls 'modernity's brutal simplifiers'. He goes on to write

that 'cooperation is embedded in our genes, but cannot remain stuck in routine behaviour; it needs to be developed and deepened' (Sennett 2012, p. 280). Grassroots efforts directed at visioning, planning and developing new sustainable practices deserve attention and support by national governments. In concluding this section, the words of Welzer (2011, p. 33) are appropriate:

> We have, today, reached the end of a template for life and business that, for 200 years, has been extremely successful – one that worked quite magnificently under the old conditions. Those conditions – namely the availability of an entire planet for a small part of humanity and its economic model – however, no longer exist.

Something has to give if a viable ecology is to be put first and the economy designed and dimensioned to sustain it. A range of different visions exist, yet there is a discouraging scarcity of national and transnational political alternatives. There is a dire need to come up with more pragmatic alternatives to current practices.

Will the emerging economies change the picture?

In brief, the outlook for sustainable development now looks worse than ever. Some countries already have an ecological footprint well in excess of one, and others are rapidly following the same (unsustainable) path. It is surely ironic, and unfortunate, that when – at the beginning of this millennium – there began to be some serious debate in the North about the need to moderate economic growth, the financial crisis which hit so dramatically had the effect not only of silencing such 'dangerous' thoughts, but also of promoting the idea that rapid economic growth in the South, notably China and India, was essential for the continued wellbeing of people in the North.

Do the emerging economies constitute only a greater challenge to sustainable development, or can there also be opportunities here? In order to address this question we will, in the following pages, consider whether they might – optimistically – play a positive role at global, national or regional levels, with regard to protecting the environment, reducing poverty and managing the perhaps impossible task of combining the two.

Emerging economies, or at least the largest of them, are important actors in international negotiations concerning the environment. Traditionally, they have been associated with the G77 group of countries whose standard position, to oversimplify somewhat, has been that concern for the environment is primarily a matter for the rich countries: it is they that have been pushing the issue, they that have largely been the cause of the problems faced on a global scale and they that are best placed – by virtue of their financial resources and technology – to address the challenges. An optimistic scenario is that the leading emerging economies will instead move 'to the other side', i.e. acknowledge that they in fact have considerable affinity with the rich countries, and should share

some of the global burden – albeit not to the same extent. A few specific cases exemplify the current situation. As noted above, in Rio in 1992, India led the G77 countries (together with USA) in stalling the negotiations concerning the proposed CO2 reduction goal of up to 20 per cent over the succeeding 20 years. At the Conference of the Parties (COP) of UNFCCC in Copenhagen in 2009, China was widely blamed for stopping a potential agreement being reached. Subsequently, however, it has emerged that this may be something of a misunderstanding; China has in fact made some efforts to correct the view that they are so firmly opposed to an international agreement. The country has in very recent years shown an increased willingness to participate, and even share a leading role, in global environmental initiatives. Brazil, one might argue, has played a rather positive role on the international scene, having hosted two of the three UNCEDs – in 1992 and 2012.

In terms of global impact, issues of trade and investment are just as important as international conventions and conferences. How have emerging economies acted in this regard? China, especially, is becoming a very major actor: both hugely increasing its imports of raw materials from poor countries (see Knutsen and Ou, Chapter 5 in this volume) and investing in these countries in mining and agriculture. Apart from the sheer volume of resources, how socially and environmentally responsible are the means of extraction? In many cases, the answer is 'not very'. For example, there is little support outside the European Union for their attempts to fight illegal logging through FLEGT (Forest Law Enforcement Governance) enacted in 2003. Can one envisage an optimistic scenario? Turning to the national level, there are perhaps more grounds for optimism, with signs of growing awareness about the environment, especially among the younger generation. In India, there has been for many years an active environmental movement. There are quite powerful grassroots activists (e.g. growing out of the Chipko movement), and some battles – such as those regarding the Sardar Sarovar dam on the Narmada river – which have gained international attention. China has initiated ambitious domestic renewable energy and energy-efficiency programmes. Along with countries such as India and Brazil, China is, to cite the Human Development Report (UNDP 2013, p. 50), 'developing and sharing new climate-friendly technologies'. It is the fourth largest producer of wind energy and the world's largest producer of wind turbines and solar panels – which are produced more cheaply than in the North, thus attractive to a wider market.

At the regional level, it is relevant to ask: can these countries play a positive role – either supporting their neighbours, or showing leadership? The case of deforestation in the Amazon provides a good example of a mixed case. On the one hand, Brazil has drastically reduced deforestation through a range of different policy measures, and shown the way to neighbouring countries such as Peru, Ecuador and Bolivia; and has offered technical advice and assistance in the use of satellite imagery – a crucial instrument for effective monitoring and control. On the other hand, there is evidence of so-called 'leakage', i.e. neighbouring countries are, apparently, in collaboration with private sector Brazilian

actors, cutting down forest in areas adjacent to the Brazilian border. In the case of both India and China, relations with their neighbours are generally less favourable than Brazil, and there is little sign of their playing any leadership role with regard to the environment.

Turning to the social dimension, some emerging economies are already moving 'across the global divide', becoming donors rather than recipients of foreign aid. In fact, several of them have been donors on a small scale for many years, but the volume of assistance has now increased dramatically. In 2009–2010, China's lending to the poorest states exceeded that lent by the World Bank; and it is estimated that Brazil provides foreign aid in the range of $400 million to $1.2 billion a year, mainly to Africa and Latin America; China provides $4 billion to $25 billion a year, mainly to Africa and Asia; and India provides $680 million to $2.2 billion a year – largely to its neighbours, Afghanistan, Bhutan and Nepal, but increasingly to Africa (Asian Development Bank Institute 2013).

At the national level, the pattern varies somewhat. China has, as is well known, reduced poverty dramatically in recent decades. But inequality has also increased substantially. There is increasing domestic discontent, constituting a potential political threat – also with a geographical (poor western areas) and ethnic dimension. It is probable that the government will be forced to act, but whether in the form of increased repression or more favourable policies is uncertain. Brazil, by contrast, appears to be moving in a positive direction. Having had historically one of the most unequal income distributions in the world, the government has, under the leadership of Lula, president and former trade union activist, and his successor, Dilma Rousseff, initiated a number of reforms to redress the situation. Most notable is the Bolsa Família, the so-called 'conditional cash transfer' system whereby payments are made to the poorest families provided they satisfy certain conditions, such as having their children vaccinated and sending them to school. This is currently the largest conditional cash transfer programme in the world, surpassing Mexico's 'Oportunidades' scheme.

India falls somewhere between the two. The distribution of income has historically been more equal than in Brazil, but rapid economic growth in recent years has had the effect – as in China – of reducing aggregate poverty but increasing inequality. India has been at least moderately successful in balancing democracy and globalisation, not least because of the interventionist role of the state that actively 'reverses the worst effects of primitive accumulation' (Chatterjee 2008, p. 55) through welfare measures of various sorts.

We have argued above that green growth is a dubious concept for fostering sustainability in the rich countries. Can we expect it to be any more relevant for these emerging economies? Perhaps they will benefit from the fact that they are not the first countries to become economically advanced: not being burdened with outmoded infrastructure, 'leapfrogging' technologies, etc. The evidence thus far is mixed and, as we have argued, 'green growth' can never be a panacea; at best a way of reducing rather than reversing the link between economic growth and environmental stress.

Conclusion

The only long-term and effective response to the challenge of sustainable development will have to come not only from the production side but from sustainable consumption: significant changes in the resource intensity of consumption which radically alter the extent to which we – the rich – impact on the environment, both at home and abroad. We cannot expect emerging economies to take the lead here. We can at most hope that if we in rich countries are able and willing to show the way, then emerging economies such as Brazil, India and China will agree to be partners. But from where will political change come? Urban middle classes? Indigenous social movements? There is evidence of an emerging change at the community level in many parts of the world, but to judge from recent history, significant changes are not going to emerge in national politics or from national politicians meeting in international fora.

The record shows that innumerable international conferences have achieved very little in response to the challenge of sustainable development – despite evidence of increased urgency as the scientific evidence of climate change becomes overwhelming. The rich countries have not been willing to face up to the overwhelming difficulties of achieving low carbon societies within a development paradigm dominated by economic growth, free markets and the mistaken view that increased efficiency can do all of the work in reducing carbon emissions in a growth economy. While there are positive changes happening at the level of local community, a lack of serious effort to achieve sustainability at the national level has hindered the negotiation of an international agreement on carbon reduction. The USA has never shown a willingness to provide leadership, and other rich countries have not filled the vacuum. Can we hope that positive change will come from the emerging economies, or from people demanding a new direction: social movements in Brazil, or the middle classes in India? Or from an autocratic state like China – whether in response to popular criticism or the increasingly real economic costs of environmental damage? And what about other emerging economies, that are each too small to make a difference on a world scale: Argentina, Vietnam, Ethiopia? These might follow some (positive?) developments in Brazil, India and China, or perhaps even establish new approaches that others can adopt. The chapters that follow will examine a wide range of countries – from Asia, Africa and Latin America – to examine their recent experience, and what this may tell us for prospects for the future.

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Part II
Asia

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4 Miracles or uneven development?

Asia in the contemporary world economy

Pietro P Masina

The rapid emergence of the Global South – especially the so-called BRICS – as economic and political contender to the G8 compels the updating of our analytical tools. While neoliberal scholars continue to contend that the 'rise of the rest' was enabled by the opportunities created by a wider and interconnected global market, there is an increasing consensus on the notion that those countries in the South that have succeeded in achieving high and sustained levels of economic growth have done so through active and selective national policies that in many cases have 'distorted' the market rather than adjusting to the logic of comparative advantages. In the following pages, we will look at the Asian developmental experience, where the role of the state in stimulating economic growth through industrial strategies has been particularly notable.

East Asia as the battlefield for development consensus

The notion that East Asia represented a case of particular success in the world economy was popularised by the World Bank (1993) in a very famous report published in the early 1990s: *The East Asian Miracle: Economic Growth and Public Policy*. In this report, the World Bank identified eight High Performing Asian Economies (HPAEs) as participating in the miracle: Japan, the so-called 'four tigers' (Hong Kong, Singapore, South Korea and Taiwan) and three emerging Southeast Asian countries (Indonesia, Malaysia and Thailand). In the period between 1960 and 1985, the HPAEs grew much faster than the other world regions, including the industrialised countries: twice as fast as the rest of East Asia, about three times as fast as South Asia and Latin America, and five times as fast as Sub-Saharan Africa. In the same period, six HPAEs were among the ten best international cases of GDP per capita growth and the remaining two – Malaysia and Thailand – were included among the best 20 (World Bank 1993, pp. 2–3). Within this generalised success, however, the 'four tigers' grew much faster than the Southeast Asian 'second tier': between 1960 and 1985 the GDP per capita in the first groups increased more than four times, while in the second group only two times. As we will see further on in this chapter, the economic performance of the two groups was due to further divergence in the following years, eventually leading to the notion that the three Southeast Asian countries

were engulfed in a 'middle-income trap'. However, the inclusion of the 'second tier' among the miracle countries played a strategic role in the World Bank attempt to restore its hegemony in the interpretation of the East Asian economic success, which was the main objective of the report (Masina 2013).

For the Bank, after its neoliberal shift during the 1980s, it was vital to present the economic boom in East Asia as a result of the 'sound' macroeconomic policies of the 'Washington Consensus' – including trade liberalisation and openness to FDI – which were supported in its client developing countries. However, this attempt to use the East Asian success to promote neoliberal policies encountered a major obstacle. A number of authoritative studies suggested that the economic boom in Japan, South Korea, Taiwan and Singapore had been achieved through *market-distorting* industrial strategies. These strategies included selective import-substitution, the creation of dedicated government agencies with the power to extend subsidies to industrial sectors or even single firms but also to prevent rent-seeking through rigid performance criteria, a pervasive use of selective policies to achieve results that could have not been guaranteed by the spontaneous operation of markets forces. Contrary to the neoliberal slogan requiring 'less state, more market', these studies indicated that the economic success had been achieved relying on the transformative role of a *developmental state*. The research of these 'statist' scholars – and in particular those of Chalmers Johnson on Japan (1982, 1995), Alice Amsden on South Korea (1989) and Robert Wade on Taiwan (1990) – could not be simply ignored. The World Bank was forced to respond, trying to incorporate the findings of the 'statist' scholars within a theoretical framework that did not depart too much from the neoclassical orthodoxy (Berger & Beeson 1998).

While acknowledging the Northeast Asian result, the World Bank report suggested that for developing countries it was more convenient to refer to the strategies adopted by emerging Southeast Asian countries – Indonesia, Malaysia and Thailand (ASEAN3 in the following) – as they were more coherent with market rules and therefore less dangerous. The ASEAN3 were considered to be more open to foreign direct investment and foreign trade and to indulge much less in selective industrial policies (Hart-Landsberg & Burkett 1998). Given their open and less distorting nature, the growth strategies implemented by the ASEAN3 could offer a more viable model for developing countries than the more complex and risky strategies followed by Japan, South Korea and Taiwan.[1]

The choice to promote the ASEAN3 as a model led the World Bank analysts to interpret data in a quite questionable way. Notwithstanding the important results in terms of economic growth and poverty reduction, these countries had not been able until then (nor have they in the following years) to equate the level of catching up with Western economies achieved by the 'tigers'. A good measure of the catching up is provided by the calculation of the gross national income per capita at parity of purchasing power as a percentage of the US one. In Figure 4.1, it is clearly visible that by 2009 Singapore had surpassed the US levels and Hong Kong had arrived close to that. South Korea had climbed from 20 per cent of the US GNI per capita in 1980 to 60 per cent in 2009.[2] In the

same period, the ASEAN3 had much less encouraging results: Malaysia moved from almost the same level of South Korea in 1980 to only 30 per cent; Thailand from 8 to 17 per cent; Indonesia only from 5 to 8 per cent. Interestingly, these trends – intentionally described on the basis of World Bank data – were clearly visible when the Bank published its famous report promoting the ASEAN3 as champions of economic development.

The middle-income trap and the challenge to social sustainability

The so-called economic miracle of post-war South Korea and Taiwan is largely rooted in their past as Japanese colonies. Although the Japanese rule was harsh, it laid the foundation for modern heavy industry (steel, chemicals and hydroelectric) and improved transport infrastructure (Cumings 1984, p. 13). The period of forced integration with the Japanese economy also constituted an important framework for the future reorganisation of the regional productive system (Arrighi *et al.* 1993). From the late 1960s – and increasingly in the 1970s – the Japanese industrial production was reorganised through a system of regional division of labour, with subsequent rounds of industrial delocalisation, creating a pattern that was given the name 'flying geese'.[3] Each step in the upgrading of Japanese industry (with the acquisition of new technologies and the production of more sophisticated goods) led to the transfer of mature productions (more labour-intensive and less value-adding) to neighbouring

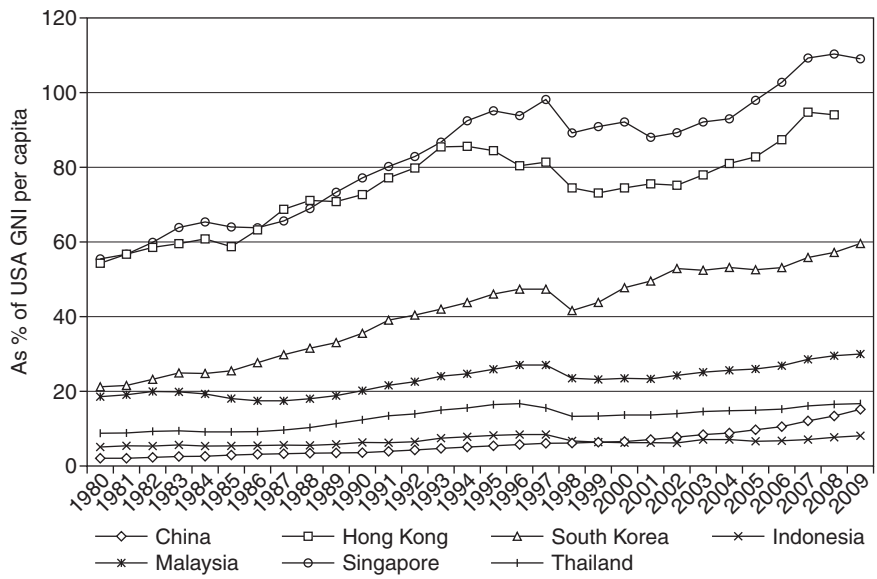

Figure 4.1 GNI per capita growth, selected Asian countries (1980–2009) (source: World Bank, World Development Indicators Online, 2013).

countries. The delocalisation of productions from high- to low- and, above all, middle-income regions was in the 1970s a worldwide process that did not regard only East Asia. For many different reasons (from the high cost of labour in the North to the necessity to open new markets), the enterprises of the industrialised countries realised a huge amount of FDI to developing countries, producing a 'multinationalisation' of the world economy (Masina 2013, pp. 56–7). However, the process of economic integration enabled by the Japan-led regional division of labour was deeper than in other parts of the world. The Japanese investment to East Asia represented the extension to a regional dimension of that particular multi-layered subcontracting system that characterised the industrial development of this country after World War II. The degree of outsourcing in Japan was much greater than in other industrialised countries in almost all sectors: already in the first half of the 1980s, for example, the ratio of outsourcing in the automobile industry was about 50 per cent in United States and Western Europe and between 65 and 70 per cent in Japan, while in the electronics industry it was 20 per cent for United States and Western Europe and between 70 and 80 per cent in Japan (Arrighi *et al*. 1993, p. 51). The web of relations among the companies forming the Japanese multi-layered subcontracting system was not only more extended than in other industrialised countries but also the relations of a large purchaser with his subcontractors resulted in corporate strategies with the definition of common goals and cooperative policies. The stability of the system was also reinforced by the involvement of powerful trading companies – the *sogo shosha* – in the disposal of the outputs of the large enterprises engaged in such process-flow industries as steel, chemicals, petrochemicals and synthetic fibres (Arrighi *et al*. 1993, p. 52).

From the end of the 1960s, this subcontracting system had assumed an increasing regional character, with the creation of a symbiotic relation between Japanese purchaser and a large number of subcontractors in other neighbouring countries. Until the 1980s, this Japan-led regional division of labour was only in part revealed by the FDI flows. Japanese firms tended to rely on minority ownership of foreign firms, joint-ventures and, in most cases, cooperation with independent subcontractors. Some of these independent subcontractors maintained a 'captive' relation with the leading firms which supplied the bulk of their production (normally over 75 per cent). Other subcontractors preserved a larger autonomy and were able to sell their output on the open market, although they were strongly connected with the Japanese productive organisation. These independent enterprises also constituted a web of inter-firm relations whose vitality was one of the leading factors in the development of the first generation of East Asian NIEs:

> In 1980, three of the East Asian NICs (Hong Kong, Taiwan, and South Korea) accounted for 72 percent of all finished consumer goods exported by the Third World to the member-states of OECD; other Asian countries supplied another 19 percent, while just 7 percent came from Latin America and the Caribbean.
>
> (Gereffi 1993, p. 72)

The inclusion of South Korea and Taiwan in the Japanese multi-layered subcontracting system was coherent with the attempt of the former colonies to accelerate the industrialisation process through the *developmental state*. For the Japanese firms, the advantage from this cooperation with the other countries was the possibility to mobilise local capital, associate national investors to common projects and include local independent producers in their networks. For the NIEs, the advantage came from technology transfer on a scale that would not be replicated in the following years when the 'second tier' countries (Indonesia, Malaysia and Thailand) were included in the regional division of labour (see Sindre, Chapter 8, for a further discussion on Indonesia).

In the 1980s, the East Asian productive system entered a new phase. The large Japanese trade surplus with the United States led to the Plaza Agreement of 1985, which implied a huge revaluation of the Japanese yen and eventually led to a major wave of labour-intensive productions' relocation to other Asian countries. By the late 1980s, the regional productive order was further transformed by industrial relocation originating also from the 'four tigers' and especially from South Korea and Taiwan. A number of connected reasons made these economies no longer competitive in terms of labour costs. First, their trade surplus led to currency appreciation at a time when Western countries started to adopt more restrictive policies to reduce their trade deficit with the NIEs. Second, the impressive economic growth achieved by the 'tigers' made it impossible to maintain an authoritarian rule – both South Korea and Taiwan had, in fact, justified a severe reduction of the workers' rights in the name of a rapid catching up. The democratisation process imposed a tighter control on polluting or dangerous industrial plants and on labour conditions, motivating some TNCs, and even national companies, to transfer production overseas. Particularly impressive was the wage surge:

> real wages increased by 30 percent in Hong Kong, by 68 percent in the Republic of Korea and by 36 percent in Singapore between 1985 and 1990, while productivity gains during the same period were, for example, only 18 percent in Singapore and 46 percent in the Republic of Korea.
>
> (UNCTAD 1994, p. 67)

From the late 1980s to the early 1990s, a large FDI flow from Japan, South Korea, Taiwan and Singapore was directed towards the so-called 'second tier' countries – Indonesia, Malaysia and Thailand – expanding their role in the regional division of labour thanks to much lower labour costs: 'In Thailand, for example, there was only a 3 percent (total) increase in real wages rates between 1985 and 1991; and in 1991 the wage level was only 19 percent of that of the Republic of Korea' (UNCTAD 1994, p. 71). As we will see, the relocation of labour-intensive productions was also directed towards China, in which the economic reforms promoted by Deng Xiaoping had made available an immense reserve of cheap labour. For the 'tigers', this phase was characterised by a significant shift towards more technology-intensive productions and more efficient

industrial processes. Like in Western countries, industrial restructuring and delocalisation were used not only to increase competitiveness of national firms on international markets but also as tools to maintain control over a more militant national labour force. There is no doubt, however, that the 'tigers' emerged from the 1990s – after the short but painful regional economic crisis of 1997/98 – as competitive players in the global economy thanks to their ability to move to the level of industrial innovators and high-quality manufacturers (Mathews & Cho 2000; Mathews 2002).

The second wave of industrial diffusion in East Asia was markedly different from the previous one. The 'second tier' countries, as would be later the case with Vietnam (especially from the mid-2000s), became part of the regional productive order through large FDI flows while the involvement of the 'tigers' had relied on independent firms or on joint-ventures with Japanese investors. Contrary to conventional wisdom, by the late 1980s, FDI flows *did not* contribute to technology diffusion: FDI was rather a *substitute* for technology transfer. A number of reasons contributed to shaping the Southeast Asian weak position in the regional multi-layered subcontracting system.

Some of these reasons were related to changes in the Japanese industrial strategies, with a stronger emphasis on *just in time*, *total quality manufacturing*, *total quality management*, etc. The need to control more closely and better integrate the international operations implies that when leading firms decide to operate in new countries – in this case, in the ASEAN3 – they either invest in fully controlled local branches or rely on their traditional suppliers (Bello 1992; Felker 2003). This radical change in regional division of labour creates a much less favourable environment for local firms and does not allow them to climb to more profitable positions within foreign-led value chains. The role of the 'second tier', therefore, is limited to the supply of cheap labour.

Other reasons contributing to a dependent Southeast Asian position – with the only exception of Singapore – in the regional productive order rest on pre-existing weaknesses in these countries. Even in the ASEAN3, which the World Bank had praised as development models, the scarce experience with quality manufacturing and the limited ability of national governments to formulate strategic industrial policies result in a regional integration process dominated by foreign capital (Masina 2013). The inconsistency, weakness or absence of coherent development strategies in the ASEAN3 stands in striking contrast to the experience of 'first tier' developers such as South Korea and Taiwan (Weiss 2000, p. 24). It is in the 'second tier' that the so-called 'flying geese' – contrary to the original model formulated by Kaname Akamatsu (1962) – come to delineate a process in which the 'followers' become passive recipients of foreign investment and are locked in a dependent position in a highly hierarchical production system (Bernard & Ravenhill 1995).

Given these premises, it is understandable that the large flow of FDI to the ASEAN3 (with a peak from 1989 to 1991) did not activate a catching-up process comparable to the one that had allowed the 'tigers' to converge on Western GNI per capita levels. Value-adding manufacturing remained

dominated by foreign enterprises and local firms had limited success either in occupying significant positions in the supply chains or in emerging as independent producers able to export to foreign markets (Hart-Landsberg & Burkett 1998). The consequence of this uneven development pattern was that the ASEAN3 remained dependent on cheap labour to compete in international markets, eventually becoming vulnerable to price competition from other Asian countries (Vietnam, Cambodia, Bangladesh) with even lower wages. By the late 2000s, this development strategy had patently failed to deliver a sustainable path to prosperity. In Thailand, the fragility of the economic model ignited a dramatic political crisis, but political tensions also emerged in Indonesia and Malaysia. These countries, in fact, had truly believed that they could become part of the 'Asian miracle' predicted by the World Bank and the disenchantment produced a political backlash. Once again, however, the World Bank and neoliberal economists were able to take the lead in reformulating the policy debate. While the catching-up failure could have been interpreted as a result of 'uneven development', the mainstream discourse put the blame on the losers. In the imaginary world of neoclassical economics, all countries would converge on higher levels of prosperity if only they liberalised enough and let the market operate freely in an optimal way: therefore, developing countries are expected to 'graduate' as middle-income and then as high-income countries. The failure of the ASEAN3 to become high-income countries was interpreted as the result of a 'middle-income trap' that could be overcome only through bolder neoliberal reforms (Agénor & Canuto 2012; Gill & Kharas 2007; Kharas & Kohli 2011). In this mainstream discourse, the 'trap' was not the result of the hierarchical structure of the world economy – in which, by definition, only a few countries can be high-income – but of the inability of developing countries to grab the opportunities open to them (Masina 2013).

Since the mid-2000s, another large Southeast Asian country – Vietnam – has become a major player in the regional division of labour. Huge FDI inflows poured in to profit from the new opportunities created by its admission to the WTO (2007) and transform Vietnam into an important manufacturing hub – i.e. a large importer of machinery and intermediate goods from Asia and an (almost) equally large exporter of consumer goods to the United States and the European Union. Like for the ASEAN3, the high export volumes from Vietnam created significant job opportunities in the new industrial areas, but the local value adding remained very limited. Even if Vietnam may wish to emulate the example of first-generation East Asian industrialisers, it is evident that the scope for proactive industrial strategies is limited under the current regional and international economic constraints (Masina 2012). In Vietnam, like in the ASEAN3, the current industrialisation model represents a challenge to social and environmental sustainability, as is further discussed by Hansen in Chapter 7.

The integration of China in the Japan-led multi-layered subcontracting system took place at the same time as the ASEAN3. Also in this case, large FDI flows played a major role in promoting the integration in the regional productive order (see Figure 4.2). The Chinese case, however, is markedly different

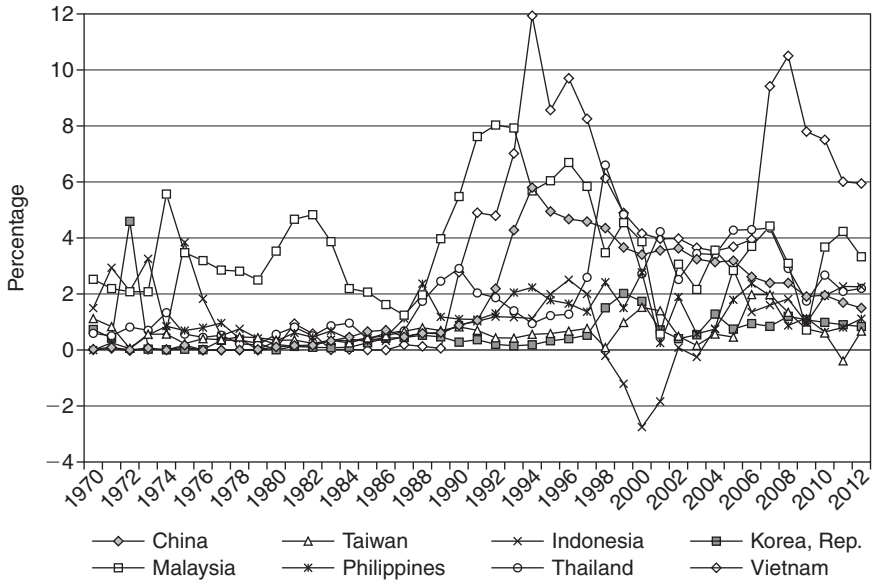

Figure 4.2 FDI flows to East Asia as GDP percentage (1970–2012) (source: UNCTAD, Statistical Data Online, 2013).

from that of Southeast Asia. Although the economic reforms introduced by Deng Xiaoping are often interpreted as a convergence with free market principles, the Chinese leadership maintained a strong guidance on the reform process. Each five-year plan clearly defined the goals to be achieved and the strategies to follow for growth acceleration, technology upgrading, competitiveness improvements, structural adjustments in industry, territorial re-equilibrium, etc. These strategies were then adopted by provincial and local authorities through ad hoc industrial plans and policy interventions (Di Tommaso *et al.* 2013, p. 4). In the ASEAN3, governments do try to implement industrial strategies, but national and international constraints do not allow these strategies to become adequately selective and effective. In the Chinese case, on the contrary, the state (at central and provincial level) enables favourable conditions for sustained industrial development, provides guidance to the state-owned and private enterprises and leads a gradual shift towards more value-adding productions. The state-coordinated industrial policies include selective measures to support those 'pillar industries' that are considered strategic for the future of the country (Lan 2008). Programmes are implemented to protect the development of infant industries, support national champions and encourage new entrants in strategic industries (Di Tommaso *et al.* 2013, p. 4).

In other (and smaller) developing countries, active industrial policies such as those promoted by the Chinese government would be exposed to complaints

and retaliations under current WTO rules. The attractiveness of the Chinese growing national market, however, makes even large transnational corporations 'willing to comply with the wishes of local, regional, and national government authorities, despite stringent technology transfer requirements' (Gereffi 2008, p. 46). Thus, while the spillover effect generated by FDI in the ASEAN3 (and Vietnam) is very limited, in China the spillover contributes to a significant improvement of technological capability.

The important differences between China and the ASEAN3 reflect on the modality of integration in the regional production system. In the Chinese case, there is a much more pronounced cooperation and complementarity with Japan and the 'tigers' within complex export-oriented networks involving international leading firms, their first-tier suppliers and global contract manufacturers (Lall & Albaladejo 2004). Although moving up the value chain continues to represent a major challenge also for the Chinese firms, in the wake of the *subprime mortgages* crisis, they had already achieved a significant shift reducing dependency on export of labour-intensive and low-tech manufactured goods: e.g. while in the 1990s, the bulk in Chinese export to the United States was low-tech manufactured goods, in 2006 high-tech export represented almost 40 per cent (Gereffi 2008, p. 41).

The global economic crisis has compelled a further strategy shift for China. The weak demand of export goods from Western economies has motivated the Chinese government to promote a growth model more oriented towards domestic consumption. While in the ASEAN3 (and even in Vietnam) the quite limited increase in labour costs is perceived as a contributing factor for the 'middle income trap', the Chinese authorities have adopted strategies to make industrial wages grow in real terms to stimulate the internal demand – at the cost of forcing Chinese firms to relocating labour-intensive productions to inner provinces or even abroad. Although the 'middle-income debate' is beginning to surface in China, it seems that conditions are so different from those in other developing countries that it has limited relevance. The sustainability of China's development model will be placed under further scrutiny by Knutsen and Ou in Chapter 5.

East and South Asia: one tale for two regions

For the Global South, the advent of neoliberalism represents a shift from the 'development project' to the 'globalisation project' (McMichael 2004). National strategies relying on import substitution are replaced by the attempt to engage with the global economy through export-oriented industrialisation. Countries start to compete with one another in FDI attraction, offering in exchange as their 'comparative advantages' easier access to their natural resources and especially to their vast reserves of cheap labour. From the 1990s, Asian developing countries have been part of this general trend. As we have already seen, the integration of the ASEAN3 in the regional productive system occurs with modalities that are highly coherent with neoliberal orthodoxy – contrary to the experience of the 'tigers' that had completed their industrial take-off in

the 'development project' period. The driver of rapid industrial development in Southeast Asia is large FDI flows from Japan and the 'tigers' and the inclusion in global value chains. Compared to other developing countries – including other Asian ones – the ASEAN3 do not completely relinquish the idea of a proactive state role in industrial policy, but their institutions never achieve the same level of coherence and effectiveness as the 'tigers' (Booth 2001). In practical terms, in the 2000s there is substantial convergence between the industrialisation models of Southeast Asia and South Asia – the main difference remains in the fact that for Southeast Asia the integration in the global value chains continues to be mediated by regional first-tier suppliers, while South Asia is only loosely connected (with the exception of Bangladesh in the garment sector) with the East Asian regional production system. Pro-market economic reforms in India since 1991 have further extended the number of countries converging with neoliberal principles (see further discussion on India by Nielsen in Chapter 6).

In the neoliberal economic order, Southeast Asia and South Asia are forced to compete on international markets by maintaining labour costs as low as possible, in a continuous 'race to the bottom'. The inclusion of these countries in global value chains occurs through alliances between transnational corporations and local capitalist forces able to guarantee an unremitting supply of cheap labour. The role of these local capitalists is extremely important as they avoid international brands being directly and explicitly involved in 'labour-unfriendly' practices, while benefiting from low prices – unless something so dramatic as the 2013 Rana Plaza tragedy in Dhaka turns the lights on illegal practices along the value chains. The mediation of local capitalist forces allows the reconnection of international production networks with the informal economy, thus further reducing labour costs and the scope for industrial disputes (Mezzadri 2008, p. 605).

Labour and environmental unsustainability is the price developing countries have to pay to be included – although the inclusion seldom implies an improvement in terms of poverty reduction and living conditions. As new countries are continuously integrated in global value chains – in Asia: Cambodia, Laos, Myanmar, Bangladesh, etc. – the race to the bottom advances as an inexorable process. The discourse on the so-called 'middle-income trap' becomes a powerful instrument to force middle-income countries towards further labour-market deregulation, concealing the fact that the real 'trap' for these countries is the uneven nature of their development trajectory. In other terms, the 'trap' – like the 'miracle' 20 years before – is used to legitimise an uneven development pattern, whose internal contradictions were already clearly in the ASEAN3 at the time they were presented as a model for other developing countries:

> The need to exploit cheap labor and the environment for growth is rooted in the imperative to increase export earnings by any and all available means – an imperative built into the peripheral export-led growth strategy, with its dependence on imported components, technologies, and business services from the core and semiperiphery.
>
> (Hart-Landsberg & Burkett 1998, p. 104)

Notes

1 Given the lack of space, we do not discuss here the cases of Singapore and Hong Kong – two city-states whose policies have been highly affected by their geographical position. Singapore has adopted a very open trade policy, relying on an effective industrial strategy making large foreign-invested firms coexist alongside large state-owned ones. Hong Kong, instead, built a strong service sector using liberal policies to exploit its position as a gateway for trade and investment to and from China.
2 Taiwan data are not reported by the World Bank and the UN agencies, but they are comparable with those of South Korea.
3 The expression 'flying geese' was designed in the 1930s by Kaname Akamatsu to describe the process of industrial upgrading in Japan and to offer a model for other developing countries. In this model, the followers pursue a catching-up strategy to reduce the distance with the more advanced economies, while the more advanced economies would try to maintain their leadership. The model was eventually reformulated by a new generation of Japanese scholars to present the regional division of labour as a harmonic process in which all parties would benefit – while Akamatsu emphasised competition and conflict. In the neoliberal version of the model inspired by the 'product life cycle' of Raymond Vernon, foreign direct investment and industrial relocation support the industrial upgrading of developing countries (see Masina 2013, pp. 78–86).

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5 Ecological modernisation and dilemmas of sustainable development in China

Hege Merete Knutsen and Xiaoxi Ou

In the last three decades, China has attained impressive rates of economic growth and significant industrial upgrading, and millions of people have been lifted out of poverty. Not only has this come at a high environmental cost in China, but the large population size, high speed of economic growth and relative shortage of natural resources and energy resources mean that economic growth and development in China will have an impact on the environment at the global level as well (Ho 2006). Plans to mitigate the environmental ill effects have received increasingly more attention during the last decade, and there are signs that China is embarking on a strategy of ecological modernisation.

This chapter analyses how this strategy plays out in order to enhance energy efficiency in the highly coal-dependent steel industry. China's CO_2 emissions have increased rapidly due to a huge demand for energy-intensive products such as steel (Zhuang 2007), and China has become the largest CO_2 emitter in the world. Per capita emissions of CO_2 exceed the global average value and are rapidly increasing (World Bank 2013a). In addition, China's primary energy demand outpaced energy production in 2001 (Zhao *et al*. 2010).

The chapter starts with a presentation of China's model for economic growth and development, industrial strategy and achievements, as well as implications and challenges ahead in terms of economic, social and environmental sustainability. The issue of social sustainability refers to whether improvements in social well-being, including areas such as health, education, employment and social cohesion can be sustained. Discontent and social unrest due to lack of improvements or negative changes in these areas are signs of social unsustainability. The next section briefly explains the concept of ecological modernisation before it addresses what ecological modernisation as a strategy entails in the Chinese context. The steel case is analysed against this backdrop. It is based on Ou's (2013) interviews in nine carefully selected steel enterprises in Jiangsu and secondary data from academic literature, industry reports and media. The last part sums up the main findings of the steel case and discusses what wider implications the findings may have in understanding the dilemmas of sustainability in China and more generally.

China's model for growth and development: three crossroads – one way out?

China stands out among the emerging economies. Since the shift to a more market-oriented economy started in 1978, China has attained impressive economic records. Not only is China the fastest growing economy in the world, with an average annual growth rate of nearly 10 per cent over the last three decades (World Bank 2013a), but China also surpassed the US as the world's largest manufacturer in 2011, ranks number one in world merchandise exports and is number five for exports of commercial services (WTO 2013). By 2012, China became the second largest economy in the world, with a GDP of US$8.3 trillion, surpassing Japan and coming next to the US, which has a GDP of US$15.7 trillion (World Bank 2013b).

China's spectacular growth has been founded on an investment-driven growth model and low-cost exports. A massive upgrading of production capacity from low-technology products to medium-technology products and ultimately high-technology products took place between the early 1990s and early 2000s (Gereffi 2009). However, foreign direct investments are involved in more than 80 per cent of the share of China's exports of high-technology products (see Knutsen 2012), and Chinese industry does not yet possess sufficient innovative capacity to introduce new-to-the-world path-breaking innovations and put them into productive use (Archibugi *et al.* 2009; The Global Innovation Index 2012).

In terms of social development, some 500 million people have been lifted above the extreme poverty line (World Bank 2013a). This is a major achievement, but 27 per cent of the population still lived below the poverty line of US$2 per day in 2009 (Zhang and Barr 2013; World Bank 2014). Success in low-cost manufacture is based on ample supply of cheap labour secured by a floating population of 60–70 million migrants from the countryside. Due to the Chinese household registration system (*hukou*), these migrants have very few social rights in the areas that they migrate to, and employers can make large deductions in their wages to cover lodging and food. In the early 2000s, the growth and development strategy started to head against shortages of cheap labour in the factory belt along the southeast coast. Workers became more demanding and wages increased (see Knutsen 2012). There are both demographic and political reasons for this. In 2015, the working-age population in China will start to decline and development of infrastructure and strategies to boost economic activities in Central and Western China make it more attractive to migrant workers to seek work closer to their homes (Wang and Mei 2009). Low wages, poor working conditions and poor living conditions in dorms within the factory premises combined with close control by employers contrast with the young migrants' expectations and aspirations for new lives in the city (Pun and Smith 2007).

The economic sustainability of China's investment-driven and export-led strategy is coming to an end, and social sustainability is being undermined.

While low-cost production has provided the foundation of economic growth and enhanced welfare in China, the same improvements make it difficult to sustain low-cost production in the longer run. The strategy cannot sustain economic competitiveness when wages and working conditions improve, and the level of wages and working conditions suffered by the floating migrant population are not socially sustainable. The surge of individual and collective petitions and riots in working life since the 1990s reflects this (Friedman and Lee 2010).

Economic growth and development in China has come at a high environmental cost as well, to the extent that it can be characterised as *environmentally unsustainable*. It is unsustainable in terms of severe air pollution, water pollution and resource depletion. This does not affect China solely: some of the air and water pollution is transboundary, China is dependent on extraction of natural resources and energy resources abroad and China's contribution to global warming is raising rapidly (Ho 2006; World Bank 2013a; Zhang and Barr 2013). Shapiro (2012) writes that pollution in China is severe and mainly caused by heavy use of coal, and that 20 of the world's 30 most polluted cities are located in China. Water pollution affects 90 per cent of urban groundwater, more than 300 million people in the rural area lack access to safe drinking water and 28 per cent of Chinese rivers are toxic to the extent that the water is unsuitable for agricultural use. On top of this, the water supply is threatened by rapidly depleting groundwater aquifers.

While the negative effects on environmental sustainability can be attributed to the large size of the population and the high speed of growth as such, implementation of the investment-driven growth model has exacerbated environmental unsustainability. The investment-driven growth model was applied to attain stable growth in order to secure employment and social stability (Liang 2012), and thereby as a means to ensure social sustainability. However, most of the investment of local governments has been directed at the corporate sector and pollution-intensive heavy industry due to constraints on land and low levels of social demand. Moreover, the output from the pollution-intensive steel industry in 2009 was 40 per cent more than the annual demand (Liang 2012). Together this exemplifies how the implementation of the investment-driven growth strategy has led to economic and environmental 'unsustainabilities' alike. More generally, there are signs that pollution effects cause severe health effects and reduce social welfare, and this has led to protests in the form of environmental 'mass incidents' (Shapiro 2012). This shows how the environmental unsustainability that accompanies the investment-driven growth and development strategy in turn undermines the aim of securing social sustainability.

Official thinking of the environment changed profoundly in 2007. In the China Modernization Report 2007, the China Centre for Modernization Research (2007) delved into the contents of the Western-oriented ecological modernisation approach and introduced a version of 'China-style ecological modernisation'. Shortly after, Premier Wen Jiabo called for a 'leaner and greener' China in the National People's Congress (Zhang *et al.* 2007, p. 666).

The concept of ecological modernisation

The ecological modernisation approach is both normative and prescriptive and rests on the notion that it is possible to reconcile development and environmental protection through greening of the state and society. Environmental considerations and interests can trigger institutional change and changes in social practices, which in turn can bring substantial improvements in environmental performance. Analyses of ecological modernisation processes address different forms of pressure that the state and civil society invoke on industry 'to go green' and the rationale of industry in doing so. The state exerts pressure on industry by a combination of environmental regulations and market forces. This way it creates incentives for 'self-regulation' in order to spur technological change, cleaner production and less environmental degradation. Protests in civil society are important in giving political authorities more leverage vis-à-vis industry (Mol 2006; Ho 2006; Mol *et al.* 2009).

As a discourse, ecological modernisation communicates 'strong belief in socio-political mastery and control' to protect the environment (Gibbs 2006, p. 201). A regulatory state together with financially strong and resourceful transnational corporations (TNCs) that apply advanced technologies and thus pollute less than other firms per unit of production play key roles in this (see McNeill and Wilhite, Chapter 3 of this volume).

The ecological modernisation approach has been subject to substantial critique. Under-theorisation of the state is the core of the problem. The state stands out as an enabling institution that delivers ecological modernisation. However, while state corporatist relationships between government and industry and co-optation of environmental movements are central in this endeavour, analyses of power relations are generally absent. Because production involves destruction of resources and this imposes costs on some but not on others, governments have to balance environmental protection with other pressures and demands that can undermine the ecological modernisation process (While *et al.* 2010). According to Perkins (2003), requirements for leapfrogging in developing countries are underestimated regarding both capabilities to master leapfrog technologies and the assumption that TNCs/foreign direct investment (FDI) can be relied upon to build such capabilities and to transfer fundamentally cleaner technologies.

Ecological modernisation with Chinese characteristics

According to Mol (2006), the number of environmental laws, regulations and standards that were established in conjunction with the modernisation process after the late 1970s reflects a simple form of ecological modernisation in China. Some environmental concerns were expressed in the 10th Five-Year Plan (FYP) (2001–2005), but most targets for energy efficiency and pollution were missed. The 11th FYP (2006–2010) put more emphasis on balancing growth and environmental protection, but there were still many difficulties in meeting the

targets (Chinadialogue n.d.). Monitoring and enforcement of environmental regulations were weak and market institutions were hardly applied to advance environmental interests. Mol (2006) attributes weak institutionalisation to intricate relationships and dependencies between political institutions and other actors and the fact that civil society was not strong enough to put political and economic actors under pressure.

When the above-mentioned Modernization Report of 2007 was due, time was ripe to officially articulate the notion of ecological modernisation. The report discusses the concept of ecological modernisation and the potential impact of such processes on China's environmental politics. Zhang *et al.* (2007) see this as an effort to include the environmental domain in the official definition of modernisation and to insert ecological rationality to the modernisation discourse, policy making and practices. The report argues that pathways to ecological modernisation have to differ with the stage of modernisation a country is in. China as a 'developmental country' and industrial society should take a short cut towards ecological modernisation by 'accelerating greening industrialization and ecologizing the economy towards a knowledge society' (Zhang *et al.* 2007, p. 663). Political changes to enable ecological modernisation were not addressed, and the role of civil society was given little relevance due to China's strong government. As expressed by Zhang *et al.* (2007, p. 665): 'This Chinese interpretation of ecological modernisation is primarily limited to technological-economic dimensions of sustainable development.' The same thinking is reflected in the 12th FYP (2011–2015). Compared with the two previous FYPs, there is a shift of course towards 'green development', with ambitions towards green growth and greater social stability, making environmental industries and technologically advanced industries the pillar industries of development (Xinhua Net 2010).

The China 2030 report of the World Bank and the Development Research Centre of the State Council of China (DRCSCC) (World Bank 2013a) follows up on the notion of going green and building a modern harmonious and creative society (World Bank 2013a). A green development strategy is described as a strategy that seeks to reconcile enhanced growth and the environment and is compatible with social development. Green technology is technology of the type that reduces the energy intensity and commodity intensity of production. This might reduce the pressure on the domestic environment and become a source of growth by tapping into new global markets in green technology. In addition, a shift to a larger share of services and technologically advanced production in the GDP may reduce the demand for inputs from pollution-intensive heavy industry. In other words, green development is development that tackles the current economic and environmental challenges together.

Better pricing of energy, commodities and environmental services are means to reduce the energy-intensity and commodity-intensity of production together with fiscal measures such a green taxes. Moreover, China has the advantage of a strong government with the ability to mobilise policy changes. As a relative latecomer to modernisation with a large domestic market, there are opportunities of technological leapfrogging. There are, however, several challenges too

that have to be solved to assure green development. Market institutions are still weak and environmental externalities are not reflected in pricing, there is an overreliance on administrative measures and few incentives for environmental protection, a competitive market environment for green sectors is lacking, and there are sector coordination failures and weak monitoring and enforcement of environmental standards (World Bank 2013a). This report too reflects a technical-economic approach to ecological modernisations. In the spirit of the World Bank, the key measure to attain green development is more reliance on market forces.

Economic and environmental performance of the steel industry

In 2010, the output of the Chinese steel industry reached an impressive 630 million tons of steel. This amounts to 45 per cent of the word output and represents an 18-fold increase in Chinese steel production since the start of the reform era in 1978. In the same period, labour productivity increased from 33 tons to 400 tons per person per year. Most steel products used in China are produced in China, and in 2005 China became a net exporter of steel products (Song and Liu 2012; World Steel Association 2012).

The steel industry has been subject to a gradual transformation since the early reform period with increasing economic autonomy and more market orientation. However, the government (central, provincial and local) still holds 100 per cent ownership in 16 of the 20 largest steel groups (Price *et al.* 2010). In 2001–2006, a number of small-scale enterprises entered the market to take advantage of the increasing domestic demand for steel (Dai and Song 2012).

In international competition, the Chinese steel industry does not enjoy the same advantages of scale as the industry in advanced economies. While the top 4–5 steel companies in advanced economies account for 70–80 per cent of production, the top ten companies in China account for 'only' 49 per cent of production (Song and Liu 2012). Moreover, from the early 2000s, the Chinese steel industry has suffered rising costs of iron ore and energy, as well as rapid growth and overcapacity. This together with relatively uniform production processes and products have led to fierce competition and declining profit margins. In 2013, net profit margins of large and medium steel enterprises were down to around zero (Moody Investment Service, in Bloomberg Businessweek 2013).

The steel industry accounts for as much as 15 per cent of industrial energy consumption, 14 per cent of industrial wastewater and 16 per cent of industrial solid waste. Addressing the steel industry directly in 2005, the National Development and Reform Commission (NDRC) required the industry to phase out obsolete technology and listed concrete standards for energy and water consumption to be met by new technology. In 2006, changes were made in taxation to discourage exports of energy-intensive and pollution-intensive products. In 2007, an index system for energy consumption per unit of GDP was introduced to evaluate the performance of local governments. Financial and technical

support is offered to reduce emission levels (Dai and Song 2012). In the scale-intensive and capital-intensive steel industry, small-scale units suffer from backward technologies, inefficient resource use and low quality standards (Song and Liu 2012). Hence, the above measures also aim at reducing the number of small-scale enterprises by making it more difficult for them to operate (Dai and Song 2012).

As part of the 12th FYP (2011–2015), the steel industry is required to cut CO_2 emissions and energy use by 18 per cent and consolidate the ten largest enterprises by mergers and acquisitions (Bloomberg News 2013). There are new cut-off points as to how small blast furnaces, converters, electric arc furnaces and other equipment can be in order to eliminate more low-end and small-scale steel producers. There is also an intention to relocate inland steel enterprises to coastal areas, in order to both reduce the costs of logistics and redistribute the environmental burden of production (KPMG 2011).

Although energy consumption per ton of steel declined from 2.5 tons of standard coal in 1978 to 605 kg in 2010 (Song and Liu 2012), the industry could save more than 100 million tons of coal a year by using the best technologies available on the market (EIA in World Bank 2013a). Hence, there is still scope for substantial cuts in energy use per unit of production. In addition, the absolute amount of energy consumption increases as production increases.

The industry eliminated outdated production capacity for 76 million tons of crude steel in 2006–2012. Nonetheless, net production capacity increased by 440 million tons and employment grew by 10 per cent (Bloomberg News 2013; China Steel Association, in Lelyveld 2013). While the central government applies measures to discourage overcapacity and overproduction and reduce the number of small-scale enterprises, local governments encourage production to assure tax income and employment, fearing social unrest. This reflects conflicts of interest over economic, social and environmental sustainability at different geographical scales and a short-term and longer-term perspective. Encouraged by government plans for further urbanisation and infrastructure projects, the industry continues to increase its production capacity hoping to sustain economic viability in the longer run (Bloomberg News 2013; Lelyveld 2013).

Exports of steel have become a means to ease surplus production. However, from the angle of global environmental sustainability, one may question increasing exports of steel from China: it is competitive in price, but is lagging behind in energy efficiency, and two-thirds of the iron ore consumed in the production is imported (Dai and Song 2012).

Enterprise perspectives on energy efficiency

Interviews on energy-efficiency measures with managers in nine iron and steel enterprises in Jiangsu Province (Ou 2013) provide more flesh on how ecological modernisation plays out in the industry. Producing 60 million tons of crude steel in 2010, Jiangsu, which is located in the manufacturing belt in the East of China, is the second largest steel-producing province. It is one of the most

energy-efficient steel-producing provinces too, and the largest steel-consuming province (China Steel Yearbook 2011, in Ou 2013). There is a mix of large-scale, medium-scale and small-scale enterprises in Jiangsu and most of them are private. The importance of scale to attain economically efficient production as well as the Chinese policy to consolidate large-scale enterprises and shut down small ones to improve energy efficiency (and reduce pollution) call for more knowledge on differences in how managers of large-scale, medium-scale and small-scale enterprises experience policy and practice of energy efficiency. Hence, interviews were made in two large-scale enterprises, three medium-scale enterprises and four small-scale enterprises. They have similar production chains and do not outsource high energy-consuming parts of production.

Technological change: 'we use but do not produce technology'

The managers responsible for energy consumption and energy efficiency measures in the large-scale, medium-scale and small-scale enterprises all agree that technological change helps them to reduce energy consumption per unit of production, but they face a number of challenges. Research and development does not take place at the enterprise level. Hence, new technology has to be accessed from Chinese state-owned research institutions or foreign companies, the latter being an important source of technology for large-scale enterprises. Dependency on foreign companies was considered less than ideal as such companies are not willing to part with their most advanced technology, in line with the more general scepticism that TNCs and FDI can be relied upon to facilitate leap-frogging (Perkins 2003).

According to the managers, it is not difficult to get information about the energy-efficiency enhancing technology that is available in China. Fierce competition, overproduction and declining steel prices force technology suppliers to provide some information free of charge, help enterprises to calculate benefits and train workers to use new equipment. In the large-scale and medium-scale enterprises, they ask their technology suppliers whether the technology they recommend operates successfully in other enterprises. Then they visit enterprises that apply the technology to find out more about how it functions. Government institutions and the industry associations are other important sources of technology-related information. However, all of the managers were sceptical towards 'immature' technology, fearing that it might upset production: 'The main risk of applying new technology is immaturity of the technology. If new technology cannot go with safe and smooth production, we do not dare to use it' (small-scale enterprise).[1]

> Of course we need to take account of the stability of production. Some equipment we introduced before are indeed good in other enterprises, however, some of them are not effective in ours. So we do not rush into applying new technologies although some energy-efficient measures recommended by energy service companies are free.

The large-scale enterprises were the first to try new technology. However, they said that they sometimes make adjustments to new energy-saving technology not to upset production, but that they then could not fully realise the full energy-saving potential. The medium-scale and small-scale enterprises were more concerned with the effects of new technology in other enterprises than the large-scale enterprises, and they often avoided new and 'immature' technology due to weaker risk tolerance.

Financial support is too small

Managers in the large-scale and medium-scale enterprises did not render much weight to financial support as an incentive to enhance energy efficiency. Amounts are too small compared to the overall investment costs. The small-scale enterprises lacked information about what types of financial support they can apply for. They were also not capable of saving as much coal as required to access financial support from the central government. It is easier to get financial support at the provincial and municipal level, but the amounts are much lower. Another concern was that application procedures are very complex and time-consuming, an issue raised in medium-scale enterprises as well.

Regulatory pressure

Views on the role of restrictive policies such as obligatory emission standards and technology standards to improve energy efficiency differ more clearly between the managers. In the large-scale enterprises, energy-saving measures were seen as a way to reduce production costs and thus something they would be inclined to do even without regulatory constraints. As energy costs usually account for nearly 30 per cent of the total cost of production, the potential to cut costs was considered good. At the same time, however, it was argued by one of the managers that it will be very difficult for them to satisfy the coal-saving requirements of the 12th FYP.

Medium-scale enterprises felt more at pressure by government regulations:

> We are influenced by the restrictive policies to some extent because the standards set are a premise to continue production. With no regulatory constraints some measures would not have been taken because we have to think about economic benefits too.

The same applies to the small-scale enterprises. Priority number one is to improve production techniques and product quality to be able to compete with other small-scale enterprises in the market, and they fear that investments in energy-efficiency measures will harm their economic viability.

It was even argued in one of the medium-scale enterprises that: 'We sometimes trick the data because we have to achieve the goals not to be punished.' In line with the case of the large-scale enterprise, this enterprise too found it

'hard to improve from an already high level of energy efficiency to satisfy the requirements of the 12th FYP'.

Capital to upgrade technology

At the time of interviews in Jiangsu, the large-scale and medium-scale enterprises did not consider capital a main barrier to technological change as long as the pay-back period of the investment was 'acceptable'. They were more concerned with how they could get access to the most advanced technology and how to avoid the risks of upsetting production when the technology is 'immature'. One year later, in September 2013, the central government announced its plan to cut the share of coal in total energy use from the current level exceeding 70 per cent to 65 per cent by 2017. At this time the profit margin was close to zero, allegedly undermining both funds and motivation in the steel industry to invest in cleaner technology (Xinhua, in China.org.cn 2013). Reporting from Hebei, China's largest iron and steel-producing province, Xinhua quotes the owner of a steel company that it is more economically efficient for steel producers to pay the fines of several hundred thousand CNY[2] than to invest in cleaner technology. Moreover, the metallurgical association of Hebei had estimated that it would cost a middle-scale enterprise some 10 million CNY a year only to maintain the equipment required to comply with the regulations (China.org.cn 2013).

Summary and discussion

By the mid-2000s, one could speak of a simple form of ecological modernisation in China. A number of environmental laws and regulations had been passed, but institutionalisation of environmental interests in planning and enforcement were weak (Mol 2006). Spurred by a triple challenge of assuring economic, social and environmental sustainability alike, the notion of ecological modernisation was officially articulated in China in 2007. A 'new' green development strategy was introduced, based on technological leapfrogging and increasing use of market-based incentives (Zhang *et al.* 2007). The strategy is reflected in the 12th FYP and further elaborated in the China 2030 report (World Bank 2013a). This places the Chinese environmental policy more firmly within the ecological modernisation approach. However, while the green development strategy is meant to speed up environmental improvements, the study of the steel industry suggests that enforcement still meets a number of challenges, some of which are specific to the Chinese context and similar to the ones that Mol (2006) pointed out already in the early 2000s, and some are of a more general type pertaining to the ecological modernisation approach per se.

In short, China's green development strategy rests on the technological-economic dimension of sustainable development in which government regulations together with increasing use of market forces shall release technological innovation of a path-breaking type and thus result in leapfrogging and first-mover advantages to Chinese industry.

In line with Mol (2006), there are still problems in enforcing environmental regulations of the restrictive type (World Bank 2013a). In the steel industry, more concretely, fines are low compared to the cost of technological upgrading and it is possible to play tricks with emission indices. Conflicting objectives and goals of the central government and local governments undermine regulations as well. The central government wants to eliminate small-scale steel enterprises and reduce overcapacity in the industry, while local governments need tax income and employment. It is easier for small-scale enterprises to attain subsidies from local governments (Jiangsu case) than the central government. Moreover, to avoid net cuts in production capacity, local governments stimulate expansion of the industry to beat the central government's deadline for cuts (Lelyveld 2013). This illustrates conflicting interests and incoherent politics.

The data from Jiangsu show how small-scale units struggle to survive in the market and thus have to forego environmental improvements. This is unfortunate from an environmental point of view. Ideally, they should either get sufficient support to comply with the environmental requirements or they should have to close down. The current state of overproduction and declining profit margins may result in a substantial shake-out of small-scale enterprises, unless they continue to get local support to 'merely survive'. While energy prices and prices of iron ore have increased in China and large-scale enterprises have started to feel the pressure of higher energy costs, the prices are relatively low in the international context (Price *et al.* 2010). A relatively low-cost steel industry is important both to development of domestic infrastructure and to the export-oriented manufacturing industry. The flip side is less tolerance for 'high' input prices that could spur more resource-efficient production.

In Western countries, civil society has played a central role in ecological modernisation by putting political and economic actors under pressure. According to Mol (2006), civil society in China is not sufficiently strong to assume this role and it is rendered little or no *official* role to play in the enforcement of China's new green development strategy (Zhang *et al.* 2007). This is not to obscure the fact that petitions and actions against pollution and the repercussions that pollution has on social development play a role in bringing environmental issues to the policy table. However, it seems to have limited power to pressure industry to self-regulation.

The steel industry in China has for many years been subject to pressures 'prescribed' in the ecological modernisation approach, such as emission standards to be complied with, what equipment is permitted to be used and targeting of production capacities to be shut down. Mergers and acquisitions have been promoted to enhance energy savings (and reduce pollution) as industry concentration and expanded economies of scale are important conditions for application of advanced technologies and for more efficient management. While energy consumption per unit of steel has declined, China lags behind the goal of leapfrogging to attain first-mover advantages in the steel industry. To attain these requires deeper changes than enhanced market orientation. The data from Jiangsu show that enterprises use but do not produce technology and that risk

aversion is a key element in their market strategy. The root problem has to do with risk-taking and creativity and thus that the 'core institutions' of norms, values and conventions in society need to change. Hence, to instigate a change from using available technology, and not even state-of the art-technology, to producing path-breaking technology is bound to take time.

In a wider perspective, however, by foreign direct investments and acquisitions, China has developed into the largest producer of solar panels and wind turbines in the world and exports these at competitive prices (UNDP 2013). Although this is not brand-new technology, it represents a form of leapfrogging that can yield 'early-mover' (as opposed to first-mover) advantages, and the technology may be used by actors who could previously not afford it. Whether such measures will be sufficient to overcome environmental ill effects of increasing economic activity and consumption are, however, questionable.

Concluding comments

Regarding the more general critique that has been raised against the ecological modernisation approach, the case of the Chinese version too builds on technology optimism and is primarily concerned with achievements per unit of production. Opportunities for win-win relations between economic, social and environmental sustainability are brought to the forefront, but it is important to delve into short and longer term trade-offs between sustainability in the three respective spheres as well. Changes in economic, social and environmental sustainability will both require and lead to changes in power relations. This is another aspect that the ecological modernisation approach has been criticised for not paying sufficient attention to, and that the Chinese version to an even greater extent seems to underplay.

While the ecological modernisation approach has been criticised for undertheorising the state and TNCs, the concept of institutions needs to be further conceptualised as well. It is time to move beyond simple conceptions of state, market and civil society in discussing institutions and delve more into how norms, values and conventions in society shape power relations. This will provide deeper knowledge of how society deals with economic, social and environmental sustainabilities.

Notes

1 All quotes from the Jiangsu study are translated from Chinese by Ou (see Ou 2013) and paraphrased.
2 Chinese Yuan Renminbi (CNY) 1 = US$0.165 (December 2013).

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6 Between peasant utopia and neoliberal dreams

Industrialisation and its discontents in emerging India

Kenneth Bo Nielsen

In late 2007, I arrived in the village of Shantipara in Singur in the Indian state of West Bengal to do fieldwork for my doctoral dissertation.[1] From the summer of 2006 onwards, Singur had risen to national and international renown following the announcement that Singur would be the future home of a new car manufacturing unit. Here, Tata Motors, a major Indian car producer, would produce the least expensive car the world had so far seen. Promoted as an Indian version of 'the people's car', and later christened 'Tata Nano', the inexpensive car soon became a 'phantasmagoria of middle class consumption' (Roy 2011) among India's aspiring classes. And the would-be, high-tech factory in Singur became almost iconic of the achievements of a globalised and assertive emerging India taking long economic strides, boosted by a neoliberal development model that had spawned almost double-digit growth rates.

At the same time, however, the resistance that local land owners put up against the factory project generated at least as much attention. To make way for the factory, 997 acres of agricultural land had to be acquired from local land owners in Singur, through the state government's use of eminent domain. But many of them proved unwilling to comply with the acquisition plans and instead organised a movement to protect their farmland. Proponents of the factory saw these so-called 'unwilling' farmers as a bunch of reactionaries getting in the way of a much-needed industrial rejuvenation which, they argued, would enhance economic growth and create employment for the benefit of society at large (Mukharji 2009). In contrast, among critics of India's current development agenda, the Singur movement was hailed as a heroic struggle of the rural poor, whose livelihoods were sacrificed at the altar of neoliberal global capitalism. The movement was endorsed by NGOs and influential political parties (Nielsen 2010), who championed the right of the unwilling farmers to stick to agriculture, and who drew attention to the adverse impact of large-scale industrialisation driven by private capital on marginalised rural communities. The heated polarisation of the public debate on Singur turned it into a veritable 'development drama' (Da Costa 2010) that became synonymous with the tension between neoliberal industrial development at the perceived expense of agriculture and peasant livelihoods that characterises India today (cf. Bedi 2013, p. 39).[2]

In this chapter, I use the Singur controversy as my point of entry to a discussion on the broader dynamics of economic transformation in emerging India, focusing both on the national and on the West Bengal specific state level. The Singur case, I suggest, speaks to both broader transformations in rural livelihoods in India, as well as a number of crucial challenges that the country faces with respect to sustaining economic growth while *also* ensuring that the workings of the economic system do not lead to an unfair concentration of wealth to the common detriment. Below I situate the Singur case in the context of economic policy and development thinking in postcolonial India. I then lay out the position of the proponents of the factory project before examining the viewpoints of its discontents. The main empirical section focuses on the unwilling farmers and their protest. Their stance, I suggest, reveals a composite assemblage of orientations and livelihood strategies rooted in real concerns about sustaining rural livelihoods and building desired futures. These, in turn, more accurately reflect everyday social and political experiences of economic liberalisation in emerging India (Gupta & Sivaramakrishnan 2011) than does the binary of peasant utopia versus neoliberal dreams.

India's development experience

It is commonly acknowledged that India has since the 1980s increasingly pursued a pro-business growth strategy (Kohli 2009). In doing so, the country has gradually moved away from the so-called Nehru-Mahalanobis strategy of development that had marked the early decades of post-Independence Indian economic growth. From 1947 onwards, India had aimed at creating self-sufficiency and an economy free from external and metropolitan domination. Through state-led economic planning – ostensibly working in relatively splendid isolation from the partisan squabbles of politics (Chatterjee 1997) – the state assumed a central role in the supply-side of the economy by actively pursuing a strategy of rapid import-substitution industrialisation that focused on the building of state-owned industries producing capital goods. And through various laws, a 'license regime' was established to regulate domestic production in accordance with the dictates of planning. This policy rested, during the early decades after Independence, on solid foundations as there was a consensus across the board, from industrialists to left-of-centre politicians and radicals, on the need for national development and poverty alleviation and, thus, on a positive and interventionist role for the state (Kothari 2005, p. 37; Ray & Katzenstein 2005).

Yet in practice, and partly because of its cumbersome license system and regime of regulations, the state in India oftentimes took on the form of a *regulatory* and not a *developmental* state (Corbridge & Harriss 2000, p. 113). The result of the Nehru-Mahalanobis model has been described as a 'mixed economy with a mixed record' (Ghosh 1999, p. 166); but by the 1970s it had largely failed to effect any significant reduction in poverty (Ray & Katzenstein 2005, pp. 7–8). Since poverty reduction was one of the foundations on which the legitimacy of

the state-led model of development rested, it lost much of its sheen. And in light of the booming economies emerging elsewhere in Southeast and East Asia around the same time, the comparatively lacklustre performance of the Indian economy meant that the state-led model of economic development came increasingly under pressure from both popular movements and the political left and right (Corbridge & Harriss 2000; Swain 2010). Critics writing from a (neo) liberal position argued that Indian planning as it had been practised in the past combined the worst features of capitalism and socialism (Das 2006), and promoted an economic system that was over-licensed, bureaucratised, inefficient and corrupt (Bhagwati, as cited in Corbridge & Harriss 2000, p. 112).

A severe fiscal crisis in 1991, when India was on the verge of default, was made the springboard for a series of liberalising economic reforms. The Indian economy had in fact already from the mid-1980s become increasingly liberalised, but after 1991 the reforms gathered momentum. Ostensibly to stabilise its economy, India opted for the implementation of a package of structural end economic reforms.[3] Shifting towards a pro-business model of development (Kohli 2009), it dismantled much of its industrial licensing system and allowed private sector companies to trade in industries that had once been arrogated to state-owned enterprises. And it opened up for foreign investments in many areas, redefining its own role in the economic process from that of planner to manager (Kurien 1994, p. 94). Although the reform process has proceeded piecemeal – with sectors such as, for example, agriculture, aviation and retail remaining partially exempt for a longer period – there is little doubt that the broad thrust of the reforms has been to increase the powers of private capital. This shift is currently underpinned by a virtual consensus among all major political parties about the priorities of rapid economic growth led by private investment, both domestic and foreign (Chatterjee 2008, p. 57), evidenced by the fact that successive waves of liberalising reforms have been carried out irrespective of the combination of parties in power in New Delhi (Chandrasekhar 2013). As a corollary of this shift in economic policy and strategy, the very idea of development has been redefined, with more and more activities having been brought under its purview, including the acquisition and allocation of land by governments to profit-making private companies (Reddy & Reddy 2007, p. 3325) and the setting up of Special Economic Zones (SEZ). A rapid increase in mining and the exploitation of natural resources such as coal, iron ore and bauxite on a large scale by private companies has also been an integral component of this shift, leading to serious environmental degradation – air and water pollution, changing hydrological regimes, forest degradation, water scarcity and fugitive dust – in and beyond mineral-bearing areas. Both the mining sector and the spate of government-facilitated land transfers to profit-making private companies have been the target of considerable criticism, with critics labelling the latter a 'land grab by capital' aided by 'the neoliberal and corporatised Indian state' (Kapoor 2011, pp. 135–136).

While the critics certainly have a point, it is important to stress that the liberalisation process in India has so far not meant a wholesale conversion to a

radical neoliberal agenda. India's vibrant democracy exercises a moderating effect as successive governments have found it necessary to strike a delicate balance between 'democracy and globalisation' (Lakha & Taneja 2009) by way of welfare policies aimed at providing livelihoods, employment, health services and affordable food for the poor through a plethora of schemes and programmes. Chatterjee (2008) calls this balancing act an attempt at 'reversing the worst effect of primitive accumulation', that is, a strategy that seeks to sustain the momentum of the business-driven strategy that had generated very impressive rates of economic growth over many years, without hurling more people into poverty. That such a balancing act is needed is brought out by the fact that India's unprecedented economic growth has *also* produced rising social and regional inequalities, and has so far failed to lift upwards of 400 million Indians out of poverty (Banik 2011). As in many other emerging economies in rapid transition, there is thus a real concern that the dynamics of economic transformation in India may effectively bifurcate the population into prosperous winners and impoverished losers.

West Bengal: rejuvenating industrialisation in an agricultural state

While the above account has sought to bring out certain key trends in India's overall development experience, it is important to note that there has been considerable sub-national variation in the development policies pursued by governments at the state level. According to Kohli (2012, pp. 14–18), three political tendencies have competed for ascendancy in India's states: the developmental, the neo-patrimonial and the social-democratic. While the first refers to a system – found in, for example, Gujarat, Karnataka and Andhra Pradesh – of close cooperation between government and business groups to promote economic growth along the lines outlined above, the second describes a mode of governance – in, for example, Bihar and Uttar Pradesh – in which the distribution of public resources is done for personalistic gains in a patron–client set-up. The latter label is, in contrast, applied to states such as Kerala and West Bengal, in which well-organised left-of-centre political parties have successfully crafted a social-democratic power bloc pursuing redistributive and pro-poor policies. Yet as the Singur case demonstrates, not even 'social-democratic' West Bengal has been immune to the general shift towards a pro-business policy orientation.

Whereas the Bengal region was once India's industrial powerhouse, West Bengal has undergone a steady decline in terms of industrial and other investments in the secondary and tertiary sectors over a long period of time. From 1977 to 2011, the state was ruled by a Left Front coalition government (LFG), dominated by the Communist Party of India (Marxist) (CPM). The CPM swept to power on a wave of popular support from rural voters – including small and marginal peasants and sharecroppers – and has generally been seen championing an agenda of agrarian transformation through land reforms, tenancy rights,

decentralised rural governance and the extension of irrigation and credit. Most observers regard these reforms as having been very successful in reducing rural poverty, giving a voice to the poor and boosting agricultural productivity. However, it has proven less adept at addressing the problem of limited industrial dynamism in spite of adopting new and more investor-friendly industrial policies during the 1990s (Pedersen 2001). The LFG's difficulties in venturing beyond its agrarian agenda became ever more acute during the 1990s and early 2000s as it became clear that the earlier impressive rates of agricultural growth had lapsed into relative stagnation. As the *West Bengal Human Development Report* from 2004 observed, emerging difficulties in agriculture had led to a situation where non-agricultural activities had become 'preferable' for many smallholder rural households, but that there 'quite simply was not enough jobs for all the people who are willing or forced to work' (Development and Planning Department, Government of West Bengal 2004, p. 42, 89). This trend is reflected in many parts of India which are showing signs of an agrarian crisis (Reddy & Mishra 2009) in the sense that a growing segment of the population is no longer capable of sustaining (or willing to sustain) themselves through agriculture. While the many widely publicised farmers' suicides in many states are one indication of this, another is the fact that, while roughly half of India's total workforce reports working in agriculture and allied sectors, this sector accounts for only around 15 per cent of India's GDP.

The need to 'move people out of agriculture' in a meaningful way thus registered as strongly in West Bengal as elsewhere. Accordingly, the CPM coined the slogan 'agriculture is our base, industry our future' for its electoral campaign in 2006 when it (successfully) sought re-election for the sixth consecutive time. The LFG's election manifesto highlighted industrialisation as one of the primary means of tackling the problem of unemployment; it contained promises to set up industrial parks; to increase investments in industry; to modernise traditional labour-intensive industries; and to establish SEZs (*People's Democracy* 2006). The model for West Bengal was thus one of rapidly industrialising the state 'to create jobs for the sons of the farmers', as the Chief Minister said, by bringing in private investments. The way this was done in Singur in several respects fit the ideal-typical model of neoliberal industrialisation where the state intervenes – with force and violence if necessary – to facilitate the penetration of capital to new areas. Although not established as an SEZ, Tata Motors were seemingly given a free choice between five locations for their new factory. They opted for Singur over other more 'backward areas' because of its proximity to Kolkata and its excellent road connectivity. The earmarked land was acquired by a state agency, the West Bengal Industrial Development Corporation (WBIDC), under eminent domain under a draconian colonial law, the 1894 Land Acquisition Act, and by heavy-handed police intervention and violence. The WBIDC bore the full expense associated with acquiring the land – including monetary compensation for the project-affected population – and subsequently leased the land out to Tata Motors on very favourable conditions, while also providing loans at a *very* low rate. Although it is difficult to calculate the extent to which the West

Bengal government has thus subsidised the Tata project in Singur, estimates suggest a sum of several billion INR. This mode of industrialisation was soon made the target of harsh criticism from several quarters.

Peasant utopia? The anti-land acquisition discourse

The resistance to the land acquisition among Singur's unwilling farmers drew into its ambit diverse groups of politicians, activists and NGOs. The leading force has, however, been the Trinamul Congress (TMC), a regional political party which today governs the state, having defeated the LFG at the hustings in 2011. The TMC is led in an autocratic manner by a flamboyant personality, Mamata Banerjee, who is now the state's Chief Minister. Shortly after the controversy over Singur erupted, Banerjee publicly endorsed the movement of the unwilling farmers. She visited Singur often, campaigned actively against the land acquisition and mobilised her party behind the unwilling farmers. While her involvement was important in propelling Singur to a level of nationwide concern, it also served to position her as the chief spokesperson of the Singur movement.

Although Mamata Banerjee's stance vis-à-vis Singur has proven to be both ambiguous and malleable, it drew to a significant extent on images of rural West Bengal as *Sonar Bangla* (Golden Bengal), a land of fields of gold and plenty, invoking the potent pastoral motif of the owner cultivator (Roy 2011, p. 271) living a harmonious life intimately connected to the land. Her critique of the violent and unjust mode of industrialisation pursued by the CPM who, in her words, were acting as 'slaves of the industrialists', was thus *also* a defence of the right of farmers to be just that, namely farmers. As an aspiring Chief Minister, she went to great lengths to stress that she was not opposed to industry per se; but good agricultural land, she maintained, should never be alienated from its rightful owners, nor should it be converted into industrial parks to benefit private investors. Politically, she championed the cause of *ma*, *mati*, *manush* (Mother, Motherland, Mankind), that is, the identity-defining bond that exists between agriculturalists and their land – conceived as a 'living being' – threatened by industrial onslaught.

Many other non-party political constituents to the anti-land acquisition movement have to an even greater extent invoked images of a peasant utopia to critique the way in which industrial development has been undertaken in West Bengal. Given space limitations I cannot cover the entire breadth of activist representations here, but will limit myself to examining one example which I find to be adequately representative. This is drawn from a fact-finding mission report written on behalf of the People's Coalition on Food Sovereignty – in collaboration with the Pesticide Action Network Asia and the Pacific – and published by the Institute for Motivating Self Employment in Kolkata. The report presents an interesting example of a more widely shared activist style of argumentation that mixes a critique of the state using ammunition provided by international human rights, national and state-level obligations and policies,

and discourses of participatory development and transparency, with a romanticised view of life among Singur's farmers.

The report begins by posing the rhetorical question 'development for whom?', after which the authors proceed to argue that 'for the people of Singur, their land is their life and part of their culture. It is a place for learning and worship' (Lahiri & Ghosh 2006, p. 12). They add that 'for generations the local people cultivated the land and most of them cannot think of any other occupation beyond agriculture' (ibid., p. 13):

> The survival and livelihoods of the peasants are closely related to the land and the agriculture that they practice. They come from generations of farmers and their skills and knowledge have been acquired through the decades of understanding, working and sustaining the land and the surrounding natural resources. These are what they know and do well. Their skills are not suitable for other occupations.
>
> (Ibid., p. 14)

The forced acquisition of their farmland would therefore not only destroy local livelihoods but also local histories (ibid., p. 16) and identities rooted in a special relationship to the land.

Although a notion of environmental sustainability can be said to be implicitly built into the generic peasant utopia that is invoked above, it is striking how, in contrast, a more explicit environmentalist critique of the Tata project in Singur was at best marginal in the overall anti-land acquisition discourse, notwithstanding the obvious detrimental environmental effects of producing a car that some (exaggerated) estimates suggested would expand the Indian car market by upwards of 65 per cent (Tiwari 2009, p. 107). While environmentalist arguments are in India often dismissed as 'getting in the way of growth' by the proponents of India's current approach to development, the absence of an environmentalist critique in the Singur case may also be related to a prevalent presumption among Indian environmentalists that, while conflicts over forests and water *are* 'environmental', conflicts – such as that in Singur – over agricultural land are not. While Baviskar (2004, p. 41) suggests that this peculiar bifurcation may stem from the upper-class background of the scholars who make these classifications, the pertinent point here is to note that the anti-land acquisition discourse coalescing around Singur drew first and foremost on a notion of peasant utopia.

In her work on indigenous activism in the state of Jharkhand, Alpa Shah describes how urban middle-class activist representations of rural *adivasis* (indigenous people) as 'true sons of the soil' intrinsically rooted in the land, both spiritually and culturally, in effect 'eco-incarcerate' poor *adivasis* into patterns of habitation, mobility and livelihood that they found undesirable (Shah 2010, pp. 129–161). Although one should not exaggerate the impact of the activists' representations of Singur's unwilling farmers – which resonate with a longer urban tradition of idealising the Bengali village – they did serve to erase the

ambiguous attitude that the unwilling farmers, as I demonstrate below, displayed with regards to agriculture. Swayed neither by 'agro-incarceration' into a peasant utopia, nor by neoliberal industrial dreams, many unwilling farmers rather sought to combine the two to the best of their ability.

Combining the best of both worlds: local livelihoods and strategies of diversification

That the perceived choice between peasant utopia and neoliberal industrialisation made little sense among the unwilling farmers of Singur was brought to my attention soon after I moved in with Prasanta Das and his extended family in Shantipara. Prasanta was an important movement organiser in his village; he was part of the Singur Krishi Jomi Raksha Committee (SKJRC), the local committee that the unwilling farmers had established to prevent the land acquisition from going ahead and, when that eventually proved futile, to have it undone. He took part in formulating the SKJRC's strategy, helped organise their rallies and meetings, and mobilised the unwilling farmers to attend. When I first met him, he spoke at length about the injustice of acquiring agricultural land from small and marginal farmers such as those living in Singur. Although the unwilling farmers had been offered financial compensation for their loss, no amount of money could ever compensate for the loss of agricultural land, for agriculture was the very foundation on which rural lives were built in Shantipara, he explained. And the relatively comfortable and prosperous lives that many people presently led could be ascribed to a life dedicated to cultivation and hard work, he added. And when asked, Prasanta could give exact information about the number of deep and shallow tube wells in the area; the kind and amount of crops grown; the prevalence of inter-cropping; and the number of people directly and indirectly dependent on agriculture. The picture he painted of Shantipara and its surrounding villages was, in other words, that of a thriving agricultural economy that guaranteed livelihoods for all and profit for some.

But Prasanta was no farmer in the conventional sense. He worked as an independent businessman in Kolkata, where he ran his own firm, which presently employed two people. Nor were any other members of his extended family farmers: his younger brother had also ventured into the world of business, albeit on a more modest scale, whereas his elder brother was a village primary school teacher. His father was too old to work, while his paternal uncle (a former civil servant) had now migrated to Canada. Although the brothers now and then provided some labour input on their fields, farming, to them, consisted mostly of supervising hired agricultural labourers. But Prasanta owned land and was looking to buy more. One evening, when I asked him about his plans, he explained that if the car factory eventually started operations in spite of their protests, land prices would soar. He paused for a while and looked stern as he said: 'Sometimes I think the factory may come; it may not come or it may come eventually; it is difficult to know.' Yet with the fate of the factory hanging in the balance, Prasanta was looking to buy now at a reasonable rate, and sell later

with a profit. Between the time of the purchase and the sale, the land could be cultivated; but cultivation was not Prasanta's prime motivation for seeking to increase his stock of farmland.

Prasanta was particularly on the lookout for what he called 'roadside land', that is, plots of land adjacent to the road. Compared to plots that were not 'roadside', one had easy access by motorbike or car to one's house if it was located on roadside land. Since very few locals owned a car, Prasanta was in all likelihood seeking a non-local but well-off buyer, possibly one of the many businessmen who could be expected to move to Singur once the spill-over effects of the car factory had boosted the local economy. Roadside land was also ideal for setting up a business since customers could easily see the shop from a distance, and could access it just as easily. Evidently, Prasanta's position vis-à-vis the factory project was marked by a good deal of ambivalence. Publicly, he campaigned against it. But privately he appeared to have made peace with the possibility that the factory would eventually begin operations. Rather than trading in one for the other, Prasanta sought to reap the benefits from both agriculture and industrialisation to the best of his ability, without any contradiction.

Although Prasanta's family had been more successful than most families in diversifying out of agriculture, their situation was not unique. Like Prasanta, most families in Shantipara owned land. But while several families could tell of a past where their forefathers had owned many acres, average land holdings at the time of the land acquisition in 2006 had declined to only 2.39 *bigha* (less than one acre), a reflection of the progressive fragmentation of land holdings in rural Bengal. Many families had, also like Prasanta, been able to successfully diversify out of agriculture – a process set in motion by the combined pull of aspirations among the younger generation, and the push of land fragmentation – so that by 2009, as many as 72 per cent of all households were pluri-active and straddled the agricultural and non-agricultural sector. The range of non-farm sources of income found in Shantipara included gem-polishing and making or selling jewellery; carpentry; and factory work; but also various kinds of salaried office work and small-scale business and trading. In addition, 17 households had a family member in coveted government jobs. This situation thus mirrors the 'complicated mix of wage labour, self-employment and involvement in "micro-enterprises", small-scale agriculture, artisanal or industrial production, and other activities' (Edelman 2008, p. 77) that the expanding semi- and unskilled rural workforce derives its livelihood from in many parts of the emerging global South. Agriculture is clearly an important ingredient in this 'mix', including in Shantipara. As Majumder (2012, p. 89) points out, landownership in rural India offers important social and economic leverage that enables one to have leisure time, to educate a male child for a non-farming career, to negotiate a dowry on the marriage market, to give orders to landless labourers, to drive hard negotiations with land brokers and to realise the speculative value of land if need be. Thus, ownership of land, no matter how small the plot, represents possibilities for a better future, because land can be leveraged to obtain the resources necessary to enter non-farming vocations now or in the future. But although

agriculture remained important to many families, it would clearly be misleading to describe Shantipara's economy as predominantly a peasant economy, much less a microcosmic peasant utopia.

For Prasanta and many others in Shantipara, the ideal was to combine the opportunities offered by both agriculture and industrial development. Perhaps for this reason, the initial reaction in Singur to the news of the Tata factory was one infused with some enthusiasm. Many villagers had, according to media reports, been delighted when they first learnt that Tata Motors were going to set up a car factory in the area; and it was only when the details of the land acquisition became known that local opposition in Singur really emerged. And even then, in the early phases of the movement, many land losers restricted themselves to demanding jobs for the displaced and a better cash compensation. Prasanta and many other unwilling farmers I interviewed often stressed that they were not against industry per se: industries represented an important potential source of non-farm income; but they should supplement and not displace agriculture. As Dia Da Costa rightly observes:

> Rural Bengalis … certainly want employment, they want capital investment in rural Bengal, they want their sons and daughters to get an education so that they can become engineers and doctors, and many want employment in villages without displacement from their rural homes.… Numerous citizens across India want a future beyond the fields.
>
> (Da Costa 2010, p. 7)

Hardly anybody I interviewed therefore objected to the factory being relocated onto fallow land elsewhere. But, as indicated, striving for a future *beyond* the fields was not the same as striving for a future *without* the fields. Given that, as most farmers knew well, industrial jobs were regularly prone to downsizing, giving up agriculture to try one's luck in salaried work was no less risky than stubbornly sticking exclusively to small-scale agriculture on ever-fragmenting plots of land. Prosperity and risk-mitigation lay in combining the two. As Prasanta concluded:

> I have been lucky. I had this talent for studies and the morale to study hard. So I got a good exam. Then I landed my first job. At the time I worked hard, night and day. I hardly ever saw my wife. But it paid off and now I have my own little firm and make good money. But my sons may not have the same talent for studies. Maybe they will not do well in school. What will they do? If we have the land, they can work on that.

Conclusion

Industrialisation driven by private investments is seen as an area of priority as emerging India seeks to chart new ways for sustaining rapid economic growth and moving people out of agriculture. As the implementation of the Tata

project in Singur shows, a zealous pursuit of this agenda in a neoliberal vein may leave displacement and discontent in its wake, and exacerbate socio-economic inequalities. There is thus ample reason to be critical of the way in which industrialisation is pursued under India's current development paradigm. Yet the alternative development vision of restoring rural India to a peasant utopia does not appear to have many takers. It is a potent image for populist mobilisation, but as a model for economic development it is unlikely to cut much ice anywhere, not least among those asked to live the utopia. The tragedy in Singur and other places in India is that the polarising conflict between these two seemingly irreconcilable development discourses sometimes produces 'development deadlocks' (Oskarsson & Nielsen, forthcoming) involving forced displacement, aborted industrialisation and blocked land restitution. The ways in which shifting Indian governments negotiate these and other 'development dramas' are thus likely to greatly shape what kind of India will 'emerge' in the years ahead.

Somewhat below the radar screen of these two competing discourses, real transformations in rural livelihoods have been under way in India for some time, aided by a growing domestic market that both the state-led and the pro-business development models can claim credit for. Strategies of economic diversification have been pursued – whether by compulsion or by choice – as more and more people seek to straddle the agricultural and non-agricultural sector. Aided by interventionist welfare policies that seek to make rural lives viable (Chatterjee 2008), this pluri-active straddling brings to our attention that (neoliberal) industrial development and agriculture and peasant livelihoods need not and should not be made part of a zero-sum game. To avoid bifurcating the Indian population into winners and losers, however, the industrialisation process would greatly benefit from being made compatible with pre-existing livelihoods, strategies, skills and aspirations.

Notes

1 This chapter builds on arguments I have made elsewhere (Nielsen 2009, 2010).
2 The land in Singur was de facto acquired in December 2006. In October 2008, however, Tata Motors announced their departure from Singur citing the 'continued hostility' they had encountered, which made it 'impossible' for them to run their factory in a satisfactory manner. Since then the land has remained walled-up and off-limits, in spite of several attempts at having the land acquisition reversed.
3 A large literature has debated whether the 1991 economic reforms proceeded gradually or erratically; and whether they were an inevitable step, or rather implemented by stealth by/on behalf of social elites. An overview can be found in Corbridge and Harriss (2000, pp. 143–171).

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7 The best of both worlds?

The power and pitfalls of Vietnam's development model

Arve Hansen

We live in interesting times when a self-proclaimed socialist country is hailed by the World Bank (2014) as a 'development success story'. But the changes Vietnam has undergone have been tremendous, and have during the last few decades radically transformed the country from extremely poor and war-torn to a vibrant 'emerging economy'. This has been achieved through gradual but deep reforms in economic policies, and taking advantage of regional and global integration. According to the official narrative, Vietnam has with its 'market economy with socialist orientation' found a brand-new approach to development, combining the strengths of the market with the egalitarian ideals of socialism. I will take this claim seriously and review the Vietnamese development model as well as reflect on whether it truly breaks new ground by representing an alternative to capitalism.

Being a late-industrialiser, Vietnam faces many challenges. While the achievements so far have been impressive, the continuing sustainability of its development is currently being questioned. This is a crucial time, when analysts and policy makers alike inside and outside Vietnam fear the so-called middle-income trap (see Masina, Chapter 4 in this volume), and the Vietnamese government is refining strategies in order to scale up its industrialisation process. This takes places in a context of narrowing policy space due to global and regional integration. The challenges are not only economic, however, but also social and environmental. The unleashing of market forces has benefited some significantly more than others, putting pressure on the ideals of the Vietnamese revolution. And the rapid growth has far outpaced protection of the environment, with serious problems of environmental degradation emerging.

Vietnam's development model

After devastating encounters with French and American imperialism, and being among the poorest countries in Asia just four decades ago, Vietnam is now considered a lower-middle-income country in World Bank rankings, and frequently depicted as one of the new emerging economies. Although describing a country with the rich history of Vietnam as 'emerging' can be problematic (see Hansen & Wethal, Chapter 1 in this volume), it is suitable if used as a term to describe

its recent developments and growing importance in the global and regional capitalist systems.

Much has already been written about Vietnam's achievements (for good reviews, see, e.g. Masina 2006 and Van Arkadie & Mallon 2003), so here a brief summary will suffice. Even though economic activities outside the command economy can be traced much further back, and steps towards reform started in the late 1970s (Fforde & Vylder 1996), the introduction of *Doi Moi* (meaning renewal or change towards something new, usually translated both inside and outside Vietnam as 'renovation') stands as the main turning point in Vietnam's modern economic history. *Doi Moi* was introduced at the Sixth Party Congress in December 1986, as Vietnam was facing a serious economic crisis with surging rates of inflation, severe balance of payments problems, a trade embargo by the West and limited official development assistance (Van Arkadie & Mallon, 2003; Joint Development Partner Report [JDPR] 2012).

Although the reform process was partly driven by the need to address the problems of the domestic command economy (which, for example, led to severe food shortages), another crucial factor was the crisis in the Soviet Union, which meant the loss of economic aid and the traditional export market, as well as political and military isolation (Masina 2006). The reforms were also highly politically driven, as a way to ensure the legitimacy and survival of the Communist Party (Vu 2009). *Doi Moi* consisted mainly of opening up for private enterprises, decollectivising agriculture and a focus on trade liberalisation and export-led growth. The results could be seen in high and steady growth, at an average of 7.3 per cent of GDP annually between 1990 and 2010, leading to almost a quintupling of per capita income (JDPR 2012) and what is considered among the fastest reductions of poverty in history (Gabriele 2006).

Compared to other developing countries, early growth was also fairly inclusive. The World Bank (2002, p. vi) reported Vietnamese development through the 1990s as 'remarkably pro-poor'. Central factors to achieve this were policies of near-universal access to healthcare and education (also pre-reform), and the early-reform 'highly egalitarian' land reforms during the decollectivisation of agriculture (World Bank 2012, p. 1). Thus, even though benefits were unevenly spread, the majority of Vietnamese improved their living standards considerably due to the reforms (Beresford 2008).

Developmentalism in the age of neoliberalism?

As Rigg (2012) emphasises, development models must be understood in their geographical and historical contexts. Geographically, Vietnam's reforms have taken place in a region of growth, with China, Northeast and Southeast Asian states as important trading partners. Furthermore, the East Asian developmental states represented obvious role models for Vietnam, due to both their strong performances and the chance of reforming the economy without breaking up state control on the overall direction of reform and societal transformation (Masina 2006). Indeed, White (1993), and more recently Beeson and Hung

(2012), have characterised Vietnam as another example of an Asian developmental state. This has been seen in the widespread use of protectionist measures, import substitution for certain consumer goods, and in trying to drive development through state-owned enterprises. There are, however, clear differences between the Vietnamese model for development and the model followed by countries such as Korea and Taiwan, such as Vietnam's lack of what Ohno (2009, p. 35) describes as 'the hallmark of East Asian industrialization': clear strategies and action plans.

Historically, Korea and Taiwan of course industrialised in a time of a very different international environment, shaped by cold-war geopolitics and relatively unconditional US aid (Beeson & Hung 2012). Some decades later, Vietnam has been reforming in a period dominated by the Washington and post-Washington consensus. Even though the extent to which donors have influence on Vietnam can be discussed (Tan 2012), the influence of the developmental zeitgeist can be seen in social, economic and trade policies. Willingness to liberalise trade is one of these, and Vietnam early on signed a number of bilateral and regional free trade agreements, in addition to becoming the 150th member of WTO in 2007 (Abbot *et al.* 2009).

Nevertheless, Vietnam has taken a gradual and experimental approach to reform, and to a large extent followed its own path through what Rodrik (2007) describes as heterodox reforms. This is a sharp contrast to the 'shock therapy' approach to reforms in other post-socialist economies (Masina 2006, 2012). This makes Masina (2012, p. 192) argue that Vietnam has been influenced by both the Washington Consensus and the East Asian developmental state, taking elements from both but without 'consistently converg[ing] with either of them'. The question remains: has this led to a brand new model of development?

Capitalism and socialism combined?

The official narrative of development in Vietnam is a heroic one; based on the ideals of Ho Chi Minh and the Vietnamese revolution, Vietnam has strategically taken advantage of the opportunities of the market economy and developed its very own development model. This model has been dubbed a 'market economy with socialist orientation', and is presented as a 'creative and fundamental breakthrough' for the Party (Nguyen Phu Trong 2012, n.p.). The continuation of socialism means embracing sustainability, as reflected in the following quote from the General Secretary of the Communist Party:

> We need economic development in parallel with social progress and fairness instead of a widening gap between the rich and the poor and social inequality […]. We need sustainable development and harmony with nature to make our living environment clean for present and future generations, instead of exploiting, appropriating resources, infinitely consuming materials, and destroying the environment. And we need a political system

> under which power truly belongs to the people, by the people, and serves the interests of the people, instead of a wealthy minority. These are the authentic values of socialism, aren't they?
>
> (Nguyen Phu Trong 2012, n.p.)

Essential to Vietnam's development model has been the ideology known as Ho Chi Minh Thought, which in the constitution forms the national ideology together with Marxism-Leninism (Socialist Republic of Vietnam 2001). Indeed, Ho Chi Minh Thought is seen as an improvement of the original ideas of Marxism-Leninism, as well as a crucial adaptation to the specificities of the Vietnamese context (Giap 2011). At the core of Ho Chi Minh's thinking was the independence and development of Vietnam. The legacy of 'Uncle Ho' has been clear in the development-oriented agenda ever since independence, meaning that Vietnam has had a government determined to actively develop the country, with the overall goals of quickly industrialising and modernising. The latest national development plan (*Vietnam's Socio-Economic Development Strategy 2011–2020*) reaffirms the slogans from previous development plans, seeking to develop a 'strategy to continue promoting industrialization and modernization, developing fast and sustainably; [...] building up our country to be an industrial one with socialist orientation' (Government of Vietnam 2011, p. 1), as well as to build 'a socialist Vietnam with a strong country, rich people, democracy, equality and civilization' (p. 5).

In this sense, the reforms are seen as strategic choices in order to achieve the overall goals of socialist modernisation, rather than as a change in economic system. In the official narrative, Vietnam has thus not been transitioning towards capitalism, but rather taking advantage of a market economy as 'an economic institution in practice, not an economic foundation of a social system' (Mai Huu Thuc 2001, p. 20). What makes this model different from capitalism in this narrative is the focus on fairness and redistribution, using the tools of the market strategically to achieve socio-economic gains within a socialist context. The state has the crucial role here, with state ownership representing collective rather than private interests. In other words, everything goes through the state, led by the Party, which fundamentally represents the people. Private ownership of land is in theory impossible, since land is owned by the people through the state[1] (Mai Huu Thuc, 2001). And all personal accumulation of wealth is allowed for the purpose of the development of the nation, which in turn benefits everyone.

The insistence on the model being socialist needs to be understood in the context of the history of communism in Vietnam. The Communist Party was founded as a nationalist opposition to French colonial rule. Throughout the history of the Party, it has represented *chu nghia xa hoi*, or socialism, versus *chu nghia tu ban*, capitalism. Capitalism is associated with the imperial aggression of particularly France and the US, and socialism associated with the independence and freedom of Vietnam. Indeed, Vietnamese school children have

grown up learning to say '*chu nghia tu ban dang giay chet*', which can be imperfectly translated as 'capitalism is dying'. Thus, being used consistently throughout history to describe what the Communist Party represents opposition to, the term capitalism is understandably avoided (see Cheshier 2010 for a more thorough discussion), and reforms thus left a need for coming up with a narrative of a new model. This need is further reinforced by the consensus-based political system, which makes it vital to uphold definitions and strategies that everyone can agree with. As Masina (2006, p. 95) argues, 'there is a broad consensus within the core leadership that the reform process is irreversible, but that this should not lead to the dismantling of the core tenet of the Vietnamese revolution'. In this sense, the idea of a 'market economy with socialist orientation' is 'rich in political implications, able to coalesce a large part of the current leadership' (ibid., p. 95) and can thus be seen as yet another pragmatic solution in the Vietnamese development model. It is thus a label that can make sense in its contextualised practical implications, but it nevertheless fails to give a good description of the current socio-economic realities of Vietnam.

Of course, the Party insists that perfect socialism is a work-in-progress. The problem is that, as discussed below, there are no signs of any socialist orientation in practice, no matter how alive it is ideologically. As Beresford (2008, p. 240) concludes: 'socialism in Vietnam appears as far away as ever'. That being said, the authoritarian state structure based on Leninist communism is very much alive. This has made some foreign scholars, such as London (2009), label the model 'market-Leninism'. Even though this undoubtedly reflects reality more accurately than the official version, it still implies that this is a market economy without capitalism. And academic observers have seemingly accepted that it is indeed something different from capitalism. The word capitalism is at least rarely used in relation to Vietnam, with Fforde (2008) and Cheshier (2010) as notable exceptions (see Cheshier 2010, p. 91 for an overview).

I agree with London (2009, 2013) that Vietnam's political system – with its strong authoritarianism, rigid hierarchies and the constitutionalised leading role of the vanguard party as representative of the people – qualifies as Leninist. I disagree with London (2013), however, in seeing this as something qualitatively different from capitalism.[2] As Fforde (2008, p. 2) puts it, 'It seems [...] somewhat self-evident that what we have seen in Vietnam since the emergence of a market economy [...] is some form of capitalism'. With a relatively functioning market economy (with heavy state involvement), wage labour, profit and personal gain as legitimate goals for economic activity, and a class divided society including the emergence of a (predominantly state-connected) capitalist class, Vietnam fits into the broad category of (authoritarian) state capitalism. Perhaps a modification of the official lingo, to 'state capitalism with a Leninist orientation', better captures the Vietnamese socio-economic realities and the specific political context in which these play out. This curious mix has proved powerful, but it also leads to serious potential pitfalls.

New economic development challenges

The Vietnamese approach to development has been successful thus far, but the country is now facing a new set of challenges. The last five years have been problematic, with macroeconomic turmoil and slower growth (JDPR 2012; Tran 2013). *Newsweek* has claimed in bold letters that Vietnam is moving from 'tiger to pussycat' (Cox 2012), mainly because of economic mismanagement and inefficient state involvement in the economy. It is important to remember, however, that according to orthodox economics Vietnam, with its heavy state involvement in the economy, should not have achieved the growth levels it has in the first place. The country has indeed been repeatedly regarded as following flawed policies throughout its national development project, but continuously proved its critics wrong (Masina 2012). Nevertheless, there is agreement both among domestic and international analysts and policy makers that Vietnam now is facing a serious challenge. In many ways, Vietnam has more in common with other Southeast Asian countries than the East Asian developmental state, and Vietnam is struggling to break what Ohno (2009) sees as the 'glass ceiling' of industrialisation, the crucial upgrade to more value-added manufactures. Even though the growth has been impressive, Vietnam has not managed to build a strong industrial base for further economic development, and there is a general lack of a clear industrial policy. Vietnam's growth has so far mainly been based on exports of agricultural products (coffee, rice, rubber) and labour-intensive manufacturing (such as footwear and textiles). How far the 'emergence' will go is likely to depend on Vietnam's ability to continue scaling up its industrialisation towards more value-added production.

The government is very aware of these problems, and is trying actively to achieve industrial upgrading. One of the approaches is to target core industries to drive industrialisation, in line with the strategies pursued by the East Asian developmental states. These are called priority and spearhead industries and include a wide range of industries, such as textiles, electronics and the domestic automotive industry (Prime Minister of Vietnam 2007). After many years, however, little progress has been made. The domestic car industry, for example, is in a crisis, especially as the liberal trade policies of the ASEAN Free Trade Area (AFTA) come into full play in 2018. At the same time, the car industry has not had the intended spill-over effects to the rest of the economy, mainly due to the fact that very few of the parts involved in car manufacturing are produced in Vietnam (Ohno 2006). The same can be seen in the textile industry, where most of the inputs to manufacturing are imported from China (Pincus 2013), and Ohno (2009) reports similar problems along the board of targeted core industries.

There are many potential reasons for these failures. It could be the limitations of trying to act as a developmental state while also liberalising trade to a significant extent. This is one of the contradictions within the Vietnamese development model. Another is the poor vertical and horizontal coordination within the one-party system (Van Arkadie & Mallon 2003), what makes Painter

(2005, p. 267) characterise the Vietnamese state as a 'highly decentralised, fragmented and sometimes incoherent set of state institutions'. The difficulty of achieving consensus among the many ministries can have major impacts on development strategies, and is likely to be an important reason for the lack of an overall industrial policy. According to Ohno (2009, p. 34):

> the proportion of unimplemented policies in Vietnam is exceptionally high not only in industrial matters but also in other policy arenas. It can even be said that very few policies are actually implemented as stipulated in Vietnam because of delays in preparing 'implementation details'; the non-provision of necessary budget, personnel or equipment; the lack of support from the business community; and the lack of ability or interest among responsible ministries to solve these problems.

Ohno (2009) further sees this as having led to policies being mostly reactive rather than proactive, as well as a whole political system unsuitable for staging bold reforms. Furthermore, with capitalist reforms greatly enhancing the opportunities for profits, different ministries and individuals within them pursue their own interests. This makes the Party not only fragmented but also commercialised, according to Pincus (2013, p. 4):

> The state did not withdraw but rather commercialized itself to take advantage of the opportunities for arbitrage associated with expanding markets. And as the state commercialized it also fragmented, as vertical authority relations broke down and horizontal coordination – which was never a great strength of the system – became even more difficult.

The problems are thus closely linked to the unleashing of capitalist forces in an authoritarian and strictly hierarchical state structure with few institutions for checks and balances. While corruption and rent-seeking was common under the planned economy, capitalism has greatly increased the availability of rents, and the coherence of the Party seems to have lost to the promise of profit in the capitalist economy. It is too early to conclude what consequences this will have for the further economic development of Vietnam. The political system was once seen as central to the development success story, but a highly pertinent question is whether this system can sustain growth and economic development in the long run without significant political reforms.

Socialism versus social polarisation

Even though the Party insists they have been reforming only the economy, not the social system, a capitalist transition involves socio-economic transformations. In terms of social development, Vietnam has a highly impressive history of reduction of absolute poverty. With the progress of reforms, however, the unequal distribution of the benefits of the new economy has become increasingly

clear. To a certain extent, Vietnam was a class-divided society also during the command economy, as rations and privileges, as well as access to profitable trading outside the official economy, depended largely on your position in the communist hierarchy (see e.g. Truitt 2013). In this regard, the communist revolution represented a continuation of the strict hierarchical systems of feudal and colonial times, although the contents of the hierarchies changed dramatically. With the transition to capitalism, these communist hierarchies remained. But Vietnam now has a very different economic reality, and the available privileges have vastly increased. The economic transition within a Leninist political system has led to an extreme inequality of opportunity, where the very rigid hierarchies of the Leninist state structure have determined the access to rents and large-scale business opportunities in the new capitalist economy. Cheshier (2010) has showed how the capitalist class emerges from within the Communist Party and how the cadres have been able to enrich themselves thanks to their positions.

A clear distinction between private and public does not really exist in Vietnam, as the two sectors intertwine in complex ways (Gainsborough 2010). Officials in the public sector use their positions to access private business opportunities, and the private sector is often highly dependent on political connections in order to succeed. The Communist Party still presents itself as the vanguard of the working class, but its members in reality act more as both actors and gatekeepers in the capitalist economy. This mix, along with very high informal salaries, makes it hard to distinguish the classes in Vietnam. There is, however, clearly a strong upper class of capitalists and high-ranking members of the Communist Party and their families. There is also a growing (predominantly urban) middle class (see Gainsborough 2010). These two classes have widespread access to high-standard real estate, goods and services, and materially enjoy very high living standards. They do represent a small minority, however. The development success of Vietnam has been based on the labour of those the Party are meant to represent: farmers and industrial workers. But these two groups have received very small parts of the profits made, making it unclear how the ostensible 'socialist orientation' provides an alternative to the relative exploitation of capitalism.

Vietnam has a growing problem of social inequalities (Painter, 2005; World Bank, 2012), and the sharp class polarisation is a central part of this. Certainly, every developing country faces the problem of inequality. But a 'market economy with socialist orientation' holds a certain social promise. If this model is to represent something different from capitalism, this difference would be expected to be particularly visible in social policies. Combining socialism with the market must mean reaping the benefits of a market economy while protecting society against its most destructive effects. This is nothing new; all capitalist economies do it to various extents, and the 'coordinated capitalism' of the Nordic countries in Europe is famous for its high level of social protection. Vietnam does have safety nets, and different policies to benefit the poor and the so-called near-poor, such as free or discounted health insurance (Gao *et al.*

2013). But in terms of social policies, Vietnam appears to have been inspired by neoliberal approaches. User fees on education and healthcare have placed a significant burden on poorer households. In addition, the rich and well-connected are able to buy private high-quality education outside a public education system in need of reform, and are able to get past waiting lists in public hospitals, or access expensive private healthcare. Even within the public education and health systems money buys extra classes or better care. The reforms of the social service system that have been dubbed 'socialisation' in the official narrative have thus rather led to commodification of knowledge and health.

The increasingly inequitable growth also potentially threatens the sustainability of the development model at deeper levels. Low general income means a relatively small domestic market, which reinforces Vietnam's dependency on exports. Also, protests are growing in size and number (Le Hong Hiep 2012). People in Vietnam are very aware of the stark inequalities embedded in the current system, and that the 'equality' of the official narrative has taken an Orwellian turn where some are much more equal than others. The social cohesion of the Vietnamese society may be under threat, and the Party is striving to keep its legitimacy in a new generation that has not experienced its victories over foreign aggressors.[3] At the same time, the regime's response to the growing discontents has been to crack down harder on political freedoms, such as introducing repressive laws on the use of the Internet and social media (not allowed to be used for discussing politics) and jailing vocal bloggers (frequently depicted as terrorists). This happens while Vietnam is continuously deepening political and economic global integration, and people have access to more information and are able to get around most of the government's attempts to control social activities. In interest of the overall development of the country, as well as for the legitimacy of the Communist Party and its claim to socialism, reorientation towards more radical redistribution as well as softening the grip of the Party on political freedom could be necessary next steps.

The environmental costs of developmental success

Another major challenge of rapid development is to balance socio-economic improvements with the environmental costs of rapid growth. Vietnam has a sad and dramatic history when it comes to environmental degradation. Most dramatic was the damage inflicted by the United States during the 'American War', where enormous areas of forest were destroyed and soil and water contaminated due to the use of chemical warfare. Since *Doi Moi*, the problems have been more internal in character, as the rapid and resource-intensive growth has taken its toll on the environment (JDPR 2012). Vietnam's Ministry of Environment and Natural Resources (MoNRE 2010) finds that the exploitation of resources rapidly increases, leading to a range of environmental problems such as deforestation, biodiversity degradation and soil erosion. Furthermore, the big agricultural sector has seen heavy pollution of soil and water through use of pesticides and fertilisers, as well as the frequent use of chemicals in aquaculture (ibid.).

While these problems are more or less direct effects of the rapid growth, missing environmental policies add to the situation. The growing industrial sector is in serious lack of environmental regulation, with, for example, only 43 per cent of the many industrial zones having (often inefficient) waste water treatment in 2009 (ibid.). This is one of the main reasons why water pollution has emerged as a serious environmental threat in Vietnam. In other areas, the Vietnamese government's coordination problems are visible. For example, in the power sector, lack of coordination of hydro power projects (meeting one third of domestic power demand) has, according to MoNRE (2010), led to flooding of original forest areas and villages, as well as frequently too low water levels in rivers. In the cities, rapid urbanisation, high population density and lack of urban planning and public transport have led to dangerous levels of air pollution. Millions of motorbikes (about 35 million nationwide, three million in Hanoi alone; see Hansen & Nielsen 2014) and a growing number of cars are now making the air at times hazardous to breathe (MoNRE 2007).

History gives us no reason to expect a model based on communist-inspired modernisation in combination with growth-oriented capitalism to lead to any breakthroughs in terms of environmental protection. A critical question is whether this combination leads to a particular environmental danger, as the release of the market and the encouragement of personal enrichment coexists with an authoritarian political system with limited possibilities for civil society to express discontent. The specific system of Vietnam in this way runs the danger of further increasing the risk of uncoordinated development projects and failures to abide with environmental regulations.

Overall Vietnam's development model has first and foremost focused on growth, and in many ways Vietnam represents a classic example of what Willis (2005, p. 150) calls the modernisation logic of 'grow now, clean up later'. There is, however, an increasing recognition of environmental issues as a destructive side-effect of development, as well as a potential obstacle to further socio-economic progress. Vietnam's economic development plan from 2006 to 2010 was the first of Vietnam's development plans to include targets for environmental protection and sustainability. Vietnam in 2012 also released a National Green Growth Strategy (Socialist Republic of Vietnam 2012), which among other points targets in the period 2011–2020 to reduce the intensity of greenhouse gas emissions by 8–10 per cent compared to 2010 levels and reduce energy consumption per unit of GDP by 1–1.5 per cent per year. It also includes a range of overall goals of developing more sustainably, such as focusing on recycling and sustainable consumption as well as on developing greener energy. It does, however, include few specific targets on how to handle local environmental issues. The green growth strategies focus mostly on limiting the environmental harm caused by growth rather than coming up with alternative solutions. In general, environmental discourses in Vietnam tend to be tilted heavily towards adaptation to climate change. This is understandable, as Vietnam is one of the countries expected to suffer greatly from climate change (JDPR 2011), but again it is likely to hamper any

hope of Vietnam's development model providing anything significantly new to the quest for sustainability.

Vietnam's environmental degradation is currently having mainly local consequences, and Vietnam's emissions on a global scale are still relatively small. Vietnam is currently ranked as 111th in the world in terms of per capita CO2 emissions (JDPR 2011). If the development model proves successful economically and the industrial development takes off, Vietnam's emissions will increase significantly, even if the intensity of emissions is reduced. The question remains of how much a developing country like Vietnam can be blamed for failing to ensure environmental protection. There is surely no abundance of role models to follow when it comes to rapidly improving living standards while ensuring environmental sustainability (see McNeill & Wilhite, Chapter 3 in this volume). And with environmental sustainability being a rather novel discourse in Vietnam, it is too early to judge whether its development model in the future will hold more than a promise of green-washing rhetoric.

Conclusions

In these globalising times, are there any radically alternative development models left? As this chapter has presented, Vietnam has represented an unorthodox approach to development through gradual and selective reforms. This has led to impressive socio-economic improvement over a very short time span, and in this sense is another example of the potentials of a strong state determined to make national developmental progress. Vietnam has strategically taken advantage of opportunities in the global capitalist system, and managed to find markets for its products. But even though this has been presented by the Vietnamese Communist Party as a brand new model of development, this claim does not fit reality. It has indeed been a mix of socialist rhetoric, a Leninist political system, and market capitalism. The mix is perhaps new (excluding China), but it is, I argue, at best a new variety of capitalism. In the quest for growth, the ostensible socialist orientation is found missing. And apart from official rhetoric, there are no signs that it will reappear in any near future, with social polarisation and increasing class differences currently the trend.

Economically, Vietnam has achieved very high growth rates, but less economic development in terms of improving endogenous technological capacities and scaling up its industries. Vietnam remains mainly an exporter of primary commodities and a hub for labour-intensive manufacturing, and could thus risk being stuck in its middle-income position (see Masina, Chapter 4 in this volume). Vietnam is not alone in facing this problem, and is perhaps an example of how intensified global and regional integration makes it both easier and harder to develop – easier to attract investment and technology, harder to develop own, national capacities. However, it is also highly questionable if the current Vietnamese model of what I have called 'state capitalism with a Leninist orientation' provides a suitable environment for achieving this, particularly due to the lack of inter-ministerial coordination,

fragmentation of the state apparatus and the many opportunities for rent-seeking in the market economy.

With a resource-intensive development model with poor environmental regulation, growth in Vietnam takes a heavy toll on the environment. Future development is expected to significantly worsen this. There is currently very little focus on developing greener alternatives, although environmental sustainability is starting to get (rather superficial) attention. This, in combination with the economic difficulties and the increasingly visible side-effects of rapid growth, means that Vietnam could risk running into a triple crisis of economic stagnation, social polarisation and environmental degradation. Unless, of course, Vietnam once again proves its critics wrong and embarks on a new set of reforms.

Notes

1 The state officially owns all land, which in turn can be rented by individuals and firms. In practice, however, land is bought and sold in a fierce market.
2 This of course depends on how capitalism is defined. London (2013, p. 29) argues that '"capitalist" suggests the supremacy of liberal economic institutions, such as private property, and the presence of a dominant capitalist class'. As I argue in this chapter, both are, in practice, present in Vietnam. Nevertheless, in state capitalism, the state can take the role of dominant capitalists, and history has shown that capitalism can thrive in authoritarian institutions.
3 Different opinions exist as to the strength of the Party's legitimacy. London (2009) sees it as strong, while Le Hong Hiep (2012) sees the legitimacy as under serious threat.

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8 Indonesia

Neoliberal development in the context of decentralised patronage politics

Gyda Marås Sindre

In recent years, Indonesia has been described as an emerging 'Tiger economy' and potentially 'the world's first Muslim and democratic superpower' (Keating 2010). Alluding to the country's potential as an investment destination, Indonesia is also part of what the economist Jim O'Neill has dubbed the MINTs, the Next Economic Giants (See Hansen and Wethal, Chapter 1 in this volume). It is true that, in the current political climate, it is difficult to overlook Indonesia's prospects for material growth. Having overcome the massive economic downturn suffered during the 1997 Asian economic crisis, when the country's GDP plummeted with an impressive 13 per cent that was followed by the toppling of the centralist authoritarian New Order regime the following year, Indonesia has indeed recovered. Since 2010, comparatively unaffected by the 2008 global financial crisis, the growth rate has been stable around 6 per cent.[1] Foreign debt is low at 26 per cent of GDP and food security is considered high with two-thirds of its GDP deriving from domestic consumption (Reid 2012), a number that is much higher than, for instance, China (Roland-Holst *et al*. 2010).

The combination of several factors accounts for these successes: a young population, which together with a rising middle class also accounts for the rise of a new consumer class,[2] generous endowments of natural resources, energy and commodities, stable macroeconomic conditions and political stability (see Basri 2012). These factors have led analysts to predict that Indonesia is even better positioned than China for long-term economic growth (see Buiter and Rahbari 2011; Deutch 2011).

Yet, despite these positive predictions, it is unclear whether and how Indonesia will fulfil the high expectations and the extent to which the current growth trend can be accompanied by policies ensuring sustainable development. The exploitation of natural resources accounts for a large share of the country's economic activity. The conversion of natural forests to oil palm plantations and mining of minerals and coal bring jobs and infrastructure, while also creating large profits for industry and tax revenues for the state alongside the extraction of oil and gas. Meanwhile, growth in service and manufacturing industries together with rising household incomes and an expanding middle class mean ever-increasing demand for electricity and other forms of energy. Although the current growth has not led to a substantial increase in inequality, Indonesia is

still faced with a poverty crisis. The official Indonesian poverty rate is currently around 12 per cent, but over the past four years there has been a steady decrease in the annual reduction in the poverty rate. Another problematic feature is that the remaining poor Indonesian households are further below the poverty line than in the early 2000s (World Bank 2013).

It is true that the Indonesian government has implemented quite substantive policies aimed at poverty reduction and income distribution as well as having committed to a number of international agreements that address its environmental problems, especially in relation to carbon emissions. In 2005 and 2008, the government undertook drastic measures to raise fuel prices in order to free up funds for the expansion of its new flagship poverty alleviation programme, the National Programme for Community Empowerment (*Program Nasional Pemberdayaan Masyarakat*, PNPM) – although high fuel subsidies still remain. At the 2007 UN climate conference in Bali, Indonesia took on a rare leadership role in getting the Bali Roadmap to shore (Jotzo 2012) and in 2009 President Yodhoyono announced that Indonesia would adopt a unilateral emissions target (Jotzo 2012). Recognising the growing threat of Indonesia's deforestation to climate change, these latter initiatives culminated in the commitment to UN REDD (Reducing Emissions from Deforestation and Forest Degradation) to which Norway pledged US$1 billion to Indonesia to improve forest management as a reward for curbing deforestation (Governments of Norway and Indonesia 2010).

But pledges and even concrete policies do not equal effective implementation to reach the goals of sustainable development. As highlighted by McNeill and Wilhite (Chapter 3 in this volume), the combination of a persistent growth imperative and the shift to neoliberal trends of assigning the responsibility for sustainable policies to the market has in many instances derailed the sustainability agenda. With this in mind, this chapter therefore looks beyond the macroeconomic predictions and grand policy commitments, and instead assesses the ways in which policies are being implemented, received and transformed at the intersection between the central and local levels in Indonesia. Specifically, the chapter analyses two sectors that illustrate both the disjunction between maintaining the growth imperative and protecting the environment and the use of market mechanisms in promoting sustainable development: the forest sector, with a particular focus on the REDD initiative, and Indonesia's poverty reduction strategy as exemplified by the aforementioned community empowerment programme, the PNPM.

As the only country in Southeast Asia currently assessed by Freedom House (2012) as 'free', democracy inevitably serves an important context for the making and conduct of Indonesia's current development strategies.[3] In contrast to the authoritarian centralism dictating New Order development policies, the current official development narrative places emphasis on democratic mechanisms as a means to ensure more equitable and sustainable development.

As the chapter highlights, these trends must also be seen in relation to the neoliberal agenda promoting good governance and free market formulated with the assistance of a number of international agencies in the immediate post-Suharto period.

From centralist authoritarianism to decentralised patronage politics

Indonesia's current development strategy is a curious one and one that is characterised by a mix between the formulation of state-regulated development programmes and free market liberal policies designed to ensure economic growth infused with neoliberal ideas of marketisation, decentralisation and monitoring. The emphasis on neoliberalism and good governance, especially on the inclusion of bottom-up participatory and market-based mechanisms in almost all of the current government's development programmes, is a clear break from the state-centrist and authoritarian approach of the New Order era. At the same time, the implementation of recent regulations aimed to protect domestic interests against control by foreign companies and the strategy to build a domestic industrial base as exemplified by the recent ban on export of raw commodities are highly reminiscent of the economic nationalism of the Suharto period (see Hill 1996).[4] Hence, while the fiscal and monetary policies of the past decades have been explicitly liberal, neither the New Order regime nor the democratically elected governments post-1998 have been governed purely by liberal market principles (Robison and Hadiz 2004; Basri 2012). On the contrary, the state remains a key actor in defining the boundaries and possibilities in development.

Consequently, the role of the state can only be understood in relation to its organisation and how power is distributed between public and private actors. The post-Suharto period has been characterised by rapid democratisation and localisation of politics. This process of *reformasi* was accompanied by pressures of localisation characterised by the shifts in priorities of state centrism of the New Order to the prioritisation of local economic, political and cultural identities across the archipelago (see Schulte Nordholt and van Klinken 2007). The subsequent introduction of regional autonomy legislation under the Habibie government (1998–99) further devolved wide-ranging political powers and financial responsibilities to 34 provinces and several hundred district-level governments. Indonesia's process of *desentralisasi* remains one of the most far-reaching, speediest and radical experiments in decentralisation in the world (Aspinall and Fealy 2002).

While the impulses for decentralisation were in part both domestic and political, the reform was also reflective of a global trend aimed to create better foundations for 'good governance'. The World Bank, the International Monetary Fund (IMF) and the US Agency for Development Aid (USAID) provided advice and technical assistance (Aspinall 2013). From the IMF's viewpoint, it was important to dismantle the centralised authoritarian state in order to remove the obstacles to markets embedded in it (Schulte Nordholt 2004). Another underlying rationale from the vantage point of the international community was the notion that by moving decision-making authority and programme delivery to the level of government and administration that was closest to the 'users', the allocation of resources and delivery of services would become both more effective and efficient (Aspinall and Fealy 2002; see also Harvey 2005).

The decentralisation discourse also entails the desire to enhance competition over resources so as to improve service delivery. Different regions would compete in creating 'business-friendly investment climates' that would 'generate a virtuous circle of better governance, economic development and contended citizens' and ensure re-election of local politicians able to deliver such goals (Aspinall 2013, p. 38). Meanwhile, targeted assistance to civil society and local communities would generate accountability and voice and enhance the demand side of improved governance. NGOs play a decisive role in what accounts for the 'governmentality' of the emerging neoliberal order. Through their interaction, subordinate groups are encouraged – or perhaps 'disciplined'– to accommodate their lives to the new liberal economic and political order (Ong 2006). In this regard, while neoliberalism in the conventional sense has come to mean a way to allocate economic resources through 'entrepreneurial freedoms and skills' within the framework of 'strong private property rights, free market and free trade' (Harvey 2005, p. 2), neoliberalism in the Indonesian context has been diluted to simply denote the 'practice of making economic calculation a universal standard for how decisions are made' (Aspinall 2013, p. 28).

As mentioned in the introduction to this chapter, the logic of marketisation and commodification of services described above very much defines the formulation of contemporary development programmes in Indonesia. Yet, another logic plays out in the contexts where state development policies are being implemented – that is, the logic of decentralised patronage politics. A legacy of the New Order rule that continues to shape the political economy today is the formation of an incredibly wealthy oligarchy made up of powerful business cronies and political business families, probably best represented by the Suharto family itself. Under New Order rule, these oligarchs constituted a highly centralised patronage network through which a range of predatory business, military, bureaucratic and political interests interlocked (Robison and Hadiz 2004). With the collapse of the New Order, these interests did not disintegrate, but rather adapted to the new circumstances continuing to latch on to new but more diffuse and decentralised networks of patronage (Robison and Hadiz 2004; see also Hadiz 2013 and Winters 2013). In practical terms, this led to an immediate explosion of rent seeking, especially in relation to the extraction of natural resources, as will be discussed in closer detail below. What emerged was a system of electoral competition through which local bureaucrats, politicians and businesspeople are able to buy their way into office via the parties that nominate them (Buehler and Tan 2007; Mietzner 2009). One sign of this is the degree to which, in the direct elections for local executive government offices, the winners are usually career bureaucrats rather than individuals whose political and economic authority derive from the private sector (Buehler 2010; Aspinall 2013).

With such caveats in mind, the remainder of this chapter examines how the combination of neoliberal strategies that permeates the contemporary attempts at creating sustainable forest management systems and the PNPM poverty reduction strategy play out in the context of localised patronage politics.

The forest sector

During 2007, reports on Indonesia's contribution to climate change pointed to large-scale carbon emissions linked to forest fires, peat drainage and land clearance by oil palm plantation owners. In fact, Indonesia is currently the top world producer of crude palm oil. In light of this massive expansion of natural resource exploitation, Indonesia is also seen as subject to an environmental tragedy with attention principally focused on the loss of vast areas of forest cover each year (Jotzo 2012). In addition to the critique of the unsustainability of the management of natural resources, criticism also concerns issues linked to environmental and distributional injustice, especially those of indigenous peoples (McCarthy and Warren 2009).

The collapse of the New Order revealed widespread illicit resource use practices and resource-related conflicts. The upheavals also attracted the attention of donors and international aid agencies that advocated the parallel development challenges of reducing greenhouse gas emissions associated with rapid deforestation, promoting sustainable forest management and protecting the rights of indigenous peoples. The means through which donors, the state and NGOs have promoted reform in this sector is through a combination of legal changes to natural resource rights and benefit sharing, the development of more integrated environmental policy and the promotion of participatory planning mechanisms (McCarthy and Moeliono 2014). A defining feature is the promotion of public–private arrangements and market mechanisms to achieve these goals.[5]

The political economy of deforestation is complex and ties directly to the persistence of material powers of old oligarchic elites, revealing the deep problems of governance within the forest sector. Post-1998, this oligarchy of domestic corporations that had emerged within the nexus of state power and influence during the New Order was able to take control over corporations and concessions over vast areas of land. While, previously, extraction had largely been limited to capital accumulation from timber extraction from natural forests, the manifestation of more localised forms of governance enabled expansion into more capital-intensive products, such as palm oil and paper and pulp (Gellert 2004). As McCarthy and Moeliono (2014) emphasise, it was this shift that required the acquisition of extensive areas of land, which has entailed the kind of rapid, large-scale conversion of land into timber and oil palm plantations of the past decade. These conflicts are further exacerbated by the unclear division of authority between central and local governments on the one hand and, on the other hand, between the line ministries governing the forest sector, especially the Ministry of Forestry, the State Ministry of the Environment and the National Development Planning Agency, BAPPENAS.

Through nurturing close ties with district-level politicians and bureaucrats, business oligarchs win contracts and logging permits, thriving on the surpluses derived from commodity exports in the resource sector. Consequently, another key feature of the system is that individually and as a group, they are 'more powerful than the laws and the system of legal enforcement' (Winters 2014,

p. 58). Collectively, they constitute powerful networks that have the resources and material power to block or minimise the impact of the system of laws and otherwise stall the initiatives of reformist actors within the state and civil society (McCarthy and Moeliono 2014; Winters 2014).

It is within this context that REDD projects are being implemented. With Indonesia being the world's third leading producer of greenhouse gases and the majority of these emissions coming from deforestation, Indonesia has played centre-stage in the global discussions regarding the REDD initiative. With REDD, market-based mechanisms have emerged as the central strategy for dealing with deforestation. The logic behind the approach is that market-based approaches will supposedly correct the inherent weakness of the conventional market system, which 'tends to undervalue ecosystem services in everyday decision-making'. Market-based mechanisms will correct this market failure and transform the basic logic of the existing (illicit) political economy described above into manageable and sustainable resource management systems. Forests 'should be given monetary value, and financial rewards introduced as a mechanism for reducing forest-based emissions' (McCarthy and Moeliono 2014, p. 253). That said, for market-based mechanisms to work, Portela *et al.* (2010) argue that clear property rights are critical in order to ensure that an exchange can be made between the landowner (supplier of the good) and those who demand it (the buyer of credit). Due to the lack of clarity regarding accountability and authority described above, REDD projects are implemented without the kind of legal framework that can potentially offer secure property rights to village landowners in place. As one commentator noted: 'Identifying who should receive compensation as well as negotiating transparent and effective payment arrangements is at best challenging especially with ambiguous land use rights and government jurisdiction in Indonesia' (Lang 2010, cited in McCarthy and Moeliono 2014, p. 254).

In this setting, the kinds of governance problems that cause deforestation in the first place might not be resolved. Those with formal tenurial rights may obtain the main share of REDD funds, rather than those with 'informal' de facto rights (Poffenberger and Smith-Hanssen 2009). The Rainforest Foundation, for instance, notes that the fear is that REDD could allow the market to define rights in an uncompromising manner (Poffenberger and Smith-Hanssen 2009). If so, the benefits will again exclusively flow to industrial and corporate interests, supporting the formalisation of land rights in a fashion that bypasses local 'customary' authority structures and those unable to assert *de jure* rights. Moreover, actors interested in forest conservation are also using the market approach, establishing companies investing in restoration concessions in the hope of gaining income from REDD.

The participation of communities is seen as critical to controlling the local forces driving deforestation. The benefits to communities from REDD could include the strengthening of tenurial rights under national law and international agreements, increased revenues and grants for community development and forest management, and empowering local communities in multi-tiered agreements (Poffenberger and Smith-Hanssen 2009). However, in the past,

companies have been able to extract resources from forest areas mapped within village boundaries, with few gains for local villagers (McCarthy and Moeliono 2014). NGOs and social movements continue to demand that forest zoning processes and legal property categories be reworked to incorporate local customary and territorial rights in a way that reduces the scope for land speculation and land grabbing (Veierland 2011). However, to date they have been unsuccessful.

As long as major domestic firms continue to promote the extension of large-scale extractive and agricultural industries, 'it remains unclear whether REDD can offer sufficient immediate incentives to prevent forest conversion' (McCarthy and Moeliono 2014, p. 254). For instance, Poffenberger and Smith-Hanssen (2009, p. 2) predict that oil palm development will offer higher yields than REDD: Over 30 years, oil palm development would yield between $3,800 and $9,600 per hectare net present value, while REDD would offer only $614–$994 per hectare. It is also unclear how REDD projects alone are able to halt the expansion of oil palm plantations and road networks in the regions surrounding REDD projects. With vulnerable lowland forests remaining open to plantation development, there is a greater 'likelihood that deforestation might be displaced from the REDD project areas to forests' outside the project area ('leakage'), 'simply because the demand for agricultural products won't go away' (Lang 2010, cited in McCarthy and Moeliono 2014, p. 254).

Discussions of market-based mechanisms also place emphasis on the efficiency of legal and regulatory frameworks that are supported by monitoring and enforcement. In other words, for governance to work, the state needs to retain its autonomy while being sufficiently 'embedded' in the social networks connecting it with private actors located outside the state (Evans 1995). The Indonesian state is not well fashioned to apply significant infrastructural power to obtain the collaboration of networks of groups and individuals that could lead to good environmental policy outcomes. The difficulty of implementing regulatory frameworks within the forest sector thus partly results from the problems of competition between agencies such as BAPPENAS, the Ministry of Forestry and the State Ministry of the Environment, which leads to lack of clarity and accountability (McCarthy and Warren 2009). This institutional complexity of state administration has exacerbated the already existing state capacity problems resulting from overlapping of authority between different levels of government. During the New Order, Suharto had overseen the contradictions between environmental regulation and the rent seeking of powerful business interests and at least limited the number of actors involved to those belonging to his inner circle. Within the current situation, the state's inability to enforce regulations is partly a consequence of the lack of coordination and clear authority structures between the relevant institutions that are creating their own rules according to their own agendas (Winters 2014). The forest sector is thus a highly contested field of development. The market-based mechanisms engrained in the REDD framework cannot substitute for political forces and institutions necessary to transform the existing structures that are underpinning the political economy of resource extraction in Indonesia.

Politics of alternative development: participation and empowerment through the PNPM

The second trajectory of development concerns the implementation of participatory mechanisms as a main strategy to combat poverty through the National Programme for Community Empowerment, the PNPM. The implementation and streamlining of community participatory mechanisms as part of national poverty reduction strategies is a key feature of decentralisation as well as a response to popular pressure to empower marginalised groups. Moreover, the PNPM reveals much about the dynamics of the contemporary involvement of the World Bank in Indonesia.

While the World Bank has had a long-standing engagement with Indonesia, consistently seeking to influence its economic and social policies, since 1997, its engagement has shifted towards more insistent promotion of neoliberal policy and institutional reform alongside the promotion of 'country ownership of the development process' (Rosser 2014, p. 174). Underlying this strategy is the recognition that successful institutional change tends to be government-initiated and government-led. Yet, in their strategy papers, the World Bank also stresses that it will prioritise support for sectors and areas in which 'reform opportunities arise' and where the World Bank has the 'capacity to deliver' (World Bank 2009, cited in Rosser 2014, p. 179). Thus, the World Bank is both choosing to support policies and programmes that are consistent with its neoliberal agenda, and is instrumental in designing such programmes, of which the PNPM is one example.

The PNPM is a massive community development project, one of the largest in the world, operating in over 60,000 villages across Indonesia (World Bank 2011a). It originated as the Kecamatan Development Programme (KDP) formulated and developed by the World Bank's social development team in Jakarta in the period 1997–2008. Renamed the PNPM and scaled up to a nation-wide programme, it was subsequently launched as the Indonesian government's new flagship poverty alleviation programme. The PNPM represents a conscious move away from the notion of projects as the deliverer of a product and towards a model of projects as a way to promote social processes in which villagers solve self-identified development problems (Guggenheim 2006). The basic model is that resources are allocated to villages on a competitive basis for projects that villagers have identified and chosen themselves (World Bank 2011a).

Unlike most decentralisation projects, the PNPM requires and provides spaces, incentives and resources with which villagers convene a series of facilitated forums and meetings in villages and sub-districts to encourage and institutionalise broader community participation in decision-making and setting priorities. With an integrated complaint mechanism, the PNPM has the potential to shift power relations in favour of marginalised groups (Gibson and Woolcock 2008). As such, an important feature is the combination of a stress on market mechanisms and competition within a framework where marginalised groups can implicate change beyond the conventional democratic institutions

of elections and political parties (Sindre 2012). This is an important domain to impact political change considering the limited access of ordinary Indonesians to elected officials and bureaucracies (Törnquist 2013).

In terms of development provision, the programme has been deemed successful for its role in providing cost-effective infrastructure, including clean water supplies and irrigation systems, and in terms of strengthening the capacity of communities to formulate demands on the state (Gibson and Woolcock, 2008; Li 2006). In addition, reports suggest that there is relatively little corruption tied to PNPM projects. The proximity to communities and ownership to the very process of deciding on, building and implementing a community project has not only created incentives for curbing corruption but also internalised methods of hindering it. It has also been successful in increasing women's access to tertiary socio-economic infrastructure and other basic services. About 60 per cent of funded village proposals arise from women's special meetings and a majority of the beneficiaries are below or at the poverty line (World Bank 2011a, p. 3).

A key feature of the PNPM is that it is organised in such a way that it bypasses the budgeting allocations to regional governments and is channelled directly to the sub-district (*kecamatan*) level, circumventing much of local government usually considered adamantly slow and unpredictable (Sindre 2012). At the national level, *kecamatan* grants are managed by the Community Development Agency within the Indonesian Ministry of Home Affairs, which is also the implementing agency, while BAPPENAS manages a national coordination team whose task is to provide the overall strategic planning and coordination of the project implementation (World Bank 2011a). The funds are transferred in block grants down to collective accounts for the villages, each being subject to certification and monitoring in the community. Typically, the funds are directed towards construction of the economic and social infrastructure needed and requested by the communities, while there is also a component that provides grants to pilot and special programmes, such as gendered lending schemes and micro-credit schemes (World Bank 2011a; see also Carroll 2009).

In light of the previous discussion of the weakness of local government following *reformasi*, the decision to integrate the *kecamatan*-level is a curious one and is important beyond being a practical solution ensuring administrative proximity to villagers. Crucially, *kecamatans* are not fully autonomous units of government: They are located below the provincial and city level and, in contrast to governors, district heads and mayors, the sub-district head (*camat*) is not democratically elected. Administratively they have no budget and contracting powers of their own. This means that the collection of commercial and political interests that had a stronghold over governments in the districts was much weaker. *Kecamatans* also had a requirement to coordinate village development through a *kecamatan* council that included all of the village heads, but because the *kecamatan* had no budget of its own to invest, most of these councils only met once or twice a year. Having villagers compete for funds in *kecamatan* meetings would encourage the kinds of direct negotiations and cooperation that

would provide a basis for rebuilding the supra-village horizontal institutions destroyed or neglected by the New Order (Sindre 2012; Carroll 2009; Guggenheim 2006).

That said, the aims of the PNPM are much more ambitious than merely making development provision more efficient. As one scholar pointed out: its aim is 'extraordinarily ambitious: to transform society' (Li 2007, p. 243). This expectant transformation was formulated as a strategy for strengthening social capital in villages, which encompasses such ideas from the globalised development discourses as 'capacity building' and 'empowerment'. From the World Bank's standpoint, the notion of social capital was consistent with the strategy of government through community, inspired by Putnam's argument that one could 'promote the efficiency of society' and thereby also the social and political capacity of communities (Putnam and Leonardi 1993). Social capital in the Indonesian village was, in Li's words, perceived as something that 'was naturally present, yet potentially deficient' (Li 2006). While the state institutions, and especially BAPPENAS, had been an inefficient provider of development to rural communities, village communities had in place relatively autonomous institutions through which villagers could mobilise for collective purposes that could be effectuated (Carroll 2009).

The perspectives of the Indonesian village and community engrained in the World Bank's approach to social capital also resonate well with the dominant Indonesian perspectives on democratisation and decentralisation reform of the 2000s. The tradition for consultative assemblies in villages, a process known as *musrenbang* or *musyawarah*, is often hailed as a natural part of village community (Sindre 2012). With such decision-making procedures in place, the conclusion was that one could achieve rural development by way of reforming local-level governance by moving the control of projects and resources to the village communities. Social capital is a conceptual framing for this capacity and a precondition for governance, which is expected to 'trickle upwards' and contribute to overall enhanced democratisation (Guggenheim 2006; Carroll 2009). Attention to 'community' as an entity that, with the available resources, is able to provide 'better solutions' rather than discussing poverty as a consequence of unequal distribution of power or as a class issue is also a way to depoliticise development. Inadequate planning and failures of governance are perceived as the main source of poverty and have thus become the arenas targeted in the major policy strategies (Li 2006).

Due to its structure of localising decision-making, the *kecamatan* grant system creates new avenues of organising that may circumvent existing economic, social and political organisations. A significant difference from ordinary development projects in Indonesia and elsewhere is its emphasis on the process in addition to the specific projects that are being executed. By focusing on the *kecamatan* level, an administrative level that does not have budgeting or implementing authority, it bypasses much of government in the planning process and thus becomes devoid of the politicking and corrupt play-out that dominate the resource sector.

With the deficiencies of local government in mind, the strategy of bypassing existing institutions in its implementation is probably one of the reasons why the programme has proven so efficient. Although the fundamental power relations are left intact, the emphasis on participatory planning has created a new terrain of governmental intervention as well as a potentially new arena for political mobilisation. At the same time, it raises some important questions about the role of the grant system in creating new institutions, both formal and informal, and whether these structures and mechanisms can lift whole communities out of poverty, or just above the poverty line.

Conclusion

As this chapter has highlighted, Indonesia's current development strategy is divided between encouraging domestic industrialisation and protectionism of Indonesian corporations on the one hand and the implementation of policies that embody inclusive bottom-up approaches to sustainable development on the other. By focusing attention on the inherent problems of governance, this chapter shows that the two are not easily combined. Both REDD and the PNPM are examples of major nation-wide policies that meet the general expectations of promoting sustainable development as discussed in the introductory chapters of this book. Moreover, democracy remains a defining feature of how these policies have been designed.

Yet, as this chapter has highlighted, the ways in which these are received is shaped as much by the workings and efficiency of its domestic political institutions as by the national strategies adopted by its leaders. The persistence of entrenched interests in business and the bureaucracy acts as a brake on reform and the unclear authority divisions between central and local government interests only create additional complexity. As this chapter has highlighted, the market mechanisms introduced through the REDD initiative and its successor programmes (REDD+ and REDD++) have not sufficiently accounted for the fragmentation of political forces as policies and jurisdiction reached in the national parliament, via competing ministries and down to local-level governments. Importantly, the ways in which oligarchic business corporations are able to manipulate electoral politics and buy their way into contracts precludes not just environmental reform, but also reforms that are beneficial to the economy in the long run. In contrast, the Indonesian poverty reduction strategy is designed in a way that bypasses at least some of these structures allowing for strengthening of communities to control development in their own vicinity.

That said, this aspect of the PNPM is also the reason why community development rarely reaches beyond the community. Communities will likely continue to have little impact on business expansion in their near vicinity. In conclusion, while there are many important and far-reaching policy initiatives and strategies that aim to tackle problems relating to climate change, local environmental degradation and poverty, there are many reasons to be cautious.

Ahead of the 2014 presidential and parliamentary elections, the main question remains: Can it deal with its incredible problems of cronyism, corruption and problems of governance?

Notes

1 In 1980–81, 1984 and each year from 1989–96, the GDP grew more rapidly than it has in any year since (Emmerson 2012).
2 With middle class as identified per capita income between $2 and $20 per day, the proportion of the Indonesian population defined as 'middle class' increased from 37.7 per cent in 2003 to 56.5 per cent in 2010 (World Bank 2011b).
3 Of the Asian countries, Indonesia is ranked as a fully democratic country alongside India, Japan, South Korea and Taiwan (Freedom House 2012).
4 These strategies are reflected in the Ban on Mining Law passed in 2009, which increases the divestment requirement to Indonesian interests for foreign investment companies from 20 per cent to 51 per cent, while Regulation No. 7/2012 issued by the Ministry of Energy and Mineral Resources prohibits the export of unprocessed raw materials or ore.
5 While relevant, it is beyond the scope of this chapter to account for the legal and regulatory changes within this sector; the problem of coordination in implementing such regulations is discussed further below (see McCarthy and Moeliono 2014 for a detailed account of this).

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Part III
Latin America

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9 Latin America's decade of growth

Progress and challenges for a sustainable development

Benedicte Bull

The period between 2003 and 2013 was one of high economic growth in Latin America, with only a brief slump in 2008–2009. The economic growth, expansion of Latin American companies (so called *multilatinas*) and Latin America's increased role in the global economy have made commentators include several Latin American economies in the category 'emerging'. Brazil is one of the four BRICs, while the newer term – 'the MINT nations' – includes Mexico along with Indonesia, Nigeria and Turkey.

A new trend in Latin America is that economic growth has been accompanied by not only a rapid improvement on a number of social indicators and poverty reduction, but also a modest decline in inequality. This development is often accounted for by pointing to the fact that the 'growth decade' coincided with a political shift towards centre-left governments. Out of 49 presidential elections in Latin America in the 2003–2013 period, 22 were won by centre-left candidates, and with the exception of Mexico and Colombia, all the large economies in Latin America were governed by centre-left governments in most of this period. There were high expectations regarding a transformation towards a more sustainable and equitable development model as a result of this left-turn, particularly since several of the incoming candidates had part of their support base in social movements advocating for such a shift. Moreover, various new governments launched innovative and ambitious plans for how to shift the focus of development towards human wellbeing in harmony with nature, as, for example, expressed in the concept of *buen vivir* (good living) that was central in Bolivia and Ecuador. However, there is little agreement about how to characterize the development models that are actually emerging, and whether current progress is sustainable, environmentally, socially and economically.

This chapter reviews some key developments in Latin America over the last decade and will discuss the principal factors behind growth and poverty reduction and the main challenges that Latin America currently faces, including that of sustainable development. I argue that one group of countries that has been governed by centre-left governments over the last few years have adopted different versions of a *developmental regional nationalism*. This is characterized by an increasing direct state engagement in developmental policies and increasing

economic nationalism, but is embedded in regional integration and open to trade and investments from abroad. Another group has continued to pursue neo-liberal development policies. Both models face significant challenges and, if current patterns continue, Latin America is likely to experience further reduction in poverty, but also deepening of over-exploitation of natural resources and environmental problems.

Latin America's decade of growth: achievements, challenges and variations

Between 2004 and 2007, Latin America passed through a growth period, not experienced in the region since the 1970s. The countries of the region had an average annual growth in GDP per capita of more than 6 per cent between 2004 and 2007. The economies also rebounded quickly after the financial crisis of 2008, quite different from the devastating impact that the financial crises of the 1980s and 1990s had on the region (see Table 9.1).

However, there were strong sub-regional and country-level differences. In the 2003–2010 period, South America grew 5 per cent, Central America 4.3 per cent, while Mexico only grew 2.2 per cent (ECLAC 2012). The more stable growth patterns were experienced in Panama, Peru and Chile, but also Brazil, Argentina, Colombia, Uruguay, Paraguay and Venezuela had years of very strong growth (ECLAC 2013a). Also in terms of the downturn after the 2008 crisis, there were large regional disparities: While Mexico saw a negative growth rate of 6.5 per cent in 2009, Bolivia and Uruguay continued to grow at about 3 per cent the same year. In a historical context, it is perhaps not terribly impressive – also in the 1960s and 1970s, Latin America experienced high growth. However, it is a remarkable turnaround from the 'lost decade' of the 1980s and the unstable growth rates of the 1990s.

Economic growth at home was accompanied by an inflow of foreign direct investment (FDI), but also by the expansion of Latin American companies across borders, within Latin America and beyond. Inwards FDI was 18 times higher in 2012 than in 1990 (approx. 170 versus 9 billion US$), and it showed a steady increase. In terms of FDI as a percentage of GDP, it was about the same in 1998 as it was in 2012 (approx. 4.3 per cent) (ECLAC 2013b). However, the inwards investments of the late 1990s were mainly a result of the foreign acquisitions of state-owned assets in privatization processes. In contrast, FDI in the 2000s was directed towards several different sectors, and a large share was greenfield investments in commodities and infrastructure.

Another important feature was the expansion of Latin American multinational companies (multilatinas) abroad. By 2010, of the more than 11,100 mergers and acquisitions of companies, more than half involved companies from emerging countries, as buyers or targets. During that year, in Latin America, the multilatinas represented 17 per cent of the total acquisitions, exceeding investments by OECD countries, which represented 12 per cent of the total (Santiso 2013, pp. 6–22).

Table 9.1 Poverty, economic growth and total GDP in Latin America

Country	*Poverty*†		*Economic growth (average annual growth in GDP/c)*			*Total GDP/c 2012*††
	2002	*2011/2012*	*2004–2007*	*2008–2009*	*2010–2012*	
Argentina[a]	45.4	4.3	8.8	4.3	5.9	11,614
Bolivia	62.4	42.3	4.5	4.3	5.0	2,625
Brazil	37.5	18.6	4.6	2.2	3.3	11,334
Chile	20.2	11.0	5.2	1.5	5.5	15,372
Colombia	51.5	32.9	6.2	1.0	4.7	7,761
Costa Rica	20.3	17.8	6.6	–0.2	4.3	9,402
Dom. Rep.	47.1	41.2	7.4	2.2	4.8	5,794
Ecuador	49.0	32.2	5.1	2.8	4.8	5,638
El Salvador	48.9	45.3	3.5	–0.2	1.9	3,795
Guatemala	60.2	68.9[b]	4.4	1.5	3.8	3,337
Honduras	77.3	67.4	6.2	0.9	3.4	2,343
Mexico	39.4	37.1	3.8	–2.9	4.0	10,041
Nicaragua	69.4	58.3[c]	4.3	1.1	4.8	1,757
Panama	36.9	25.3	8.7	3.5	9.1	9,454
Paraguay	61.0	49.6	4.5	1.4	7.1	3,684
Peru	54.7	25.8	7	3.5	7.0	6,811
Uruguay	15.4	5.9	8.2	4	5.8	14,703
Venezuela	48.6	23.9	11.8	2.3	2.3	12,733
Latin America	43.9	28.2	6.2	1.3	4.2	9,501

Source: CEPALSTAT.

Notes
a Only urban.
b Data from 2005.
c Data from 2006.
† Based on national poverty lines.
†† In dollars, at current prices.

As well as economic measures like GDP growth, a number of social indicators also showed positive trends. While 43.9 per cent of the population lived below the national poverty lines in 2002, this had dropped to 27.5 per cent in 2013.[1] The steepest annual reduction occurred between 2002 and 2008 when it fell from 43 to 33 per cent. Also levels of extreme poverty dropped significantly, from 19.3 per cent in 2002 and then to 11.5 per cent in 2013 (ECLAC 2013b). This happened after a steep increase in poverty rates during the 1980s, and a certain levelling out in terms of percentage but still an increase in terms of total number of people living in poverty in the 1990s. However, there are very significant differences between countries. In Argentina, poverty was reduced from 45.4 per cent in 2002 to 4.3 per cent in 2012, while Mexico saw almost no change (from 39.4 per cent to 37.1 per cent) during the same period.[2] Also Brazil, Venezuela, Chile and Peru have more than halved their poverty rates and a number of other countries have seen significant reductions. It is important to notice, however, that the countries started out at extremely different levels: 77 per cent of the population lived in poverty in Honduras in 2002, while the corresponding number for Uruguay was only 15 per cent. Moreover, they had seen different degrees of variations. For example, Argentina has historically had much lower poverty levels than those seen in 2002, a year marked by the effects of the devastating economic crisis of 2001.

Another major achievement was that, for the first time since serious measurements were made, inequality declined across the region during the first decade of the 2000s. From an (unweighted) average of 0.530 in the late 1990s, the Gini coefficient for household per capita income fell to 0.497 in 2010 (Lustig *et al.* 2013). Moreover, when the decline in poverty rates slowed down between 2008 and 2012, the decline in inequality continued (CEPAL 2013). It has occurred in the countries with the highest levels of inequality, as well as those with the lowest, and it has largely brought Latin America back to the levels of inequality it experienced around 1980 (Gasparini & Lustig 2011). However, again there were significant variations across countries. Although different publications conclude somewhat differently due to differences in cut-off lines, it seems that inequality declined most in Venezuela, Argentina, Nicaragua, Ecuador and Bolivia, while least improvement was registered in Guatemala, Paraguay and Honduras (Lustig *et al.* 2013, CEPAL 2013).

Although there is agreement that these positive trends are due to both economic growth and social policy, there is less agreement about the reasons for the growth and whether current patterns are economically and environmentally sustainable. In order to address that, factors behind the current patterns will be discussed in the following section.

A stroke of luck? Changes in the international political economy and the Latin American growth decade

One argument is that most of the progress is due to favourable global economic conditions. The last ten years have been characterized by a significant increase

in the prices and demand for Latin America's main export commodities. Since around 2000, there has been an annual increase in demand for metals of approx. 30 per cent, and the total price index for oil, natural gas and metals more than quadrupled between 2003 and 2011 (UNASUR/CEPAL 2013). As prices increased, so did the pace of the extraction of natural resources. Between 1990 and 2010, the percentage of the global production of three metals (gold, unrefined copper and mobiden) produced in Latin America doubled, while the production of other metals also rose. As a result, the Latin American countries' fiscal income from natural resources has also increased, after a slump in the period before 2003 (UNASUR/CEPAL 2013).

As a result of the commodity boom, the natural resource dependency of the South American economies grew during the first decade of the twenty-first century. Central America and Mexico, on the one hand, continued the trend towards less commodity dependency, while Brazil is in a middle position as it has both a sizeable natural resource export sector and significant industry (Ocampo 2008). However, Brazil also experienced increased dependence on commodities over the last decade. The decrease in commodity dependence in Central America and Mexico also had its downsides. Much of it was due to the growth of the so-called maquila or assembly industry (based on the assembly of imported parts), which experienced grave problems in competing for US market shares with cheap imports from China from the early 2000s. If we do not consider maquila exports, traditional agricultural products still make up the largest share of Central American exports (CEPAL 2013). The main change is rather that exports as a whole play a much smaller role, as remittances have replaced exports as the main source of foreign income in many countries in Central America.

One main reason for the commodity boom is China's increased role in trade in Latin America. Over the last decade, China has become the main trading partner for Brazil and Chile and among one of the top three for most of the rest of the region (Durán & Pellandra 2013). In terms of volume, the bilateral trade expanded from US$14.6 billion in 2013 to US$49 billion by 2005, and it surpassed US$250 billion in 2012. However, 2012 also saw a steep increase in Latin America's trade deficit with China, from US$150 million to US$6.6 billion.[3] This trade deficit is also very differently distributed. Whereas the commodity exporters of South America – particularly the metal exporters, Chile and Peru – have run trade surpluses, most of the other countries have imported more Chinese industrial goods than the value of their exports (IDB/INT Comtrade data). Although the trade with China is found only to explain 1 per cent of the growth in the four main economies of South America over the last few years (Brazil, Argentina, Chile and Peru) (BBVA 2010), the Chinese expansion contributed to the commodity boom and therefore to the general growth of the region.

Moreover, China has contributed with significant loans and investments and it has thus had the effect of decreasing dependence on the United States. China has provided loans worth more than US$45 billion to Venezuela over the last

few years, as well as more than $40 billion in investment commitments; it has also supported the Ecuadoran government through a series of loans backed by oil deliveries, totalling over $9 billion since 2009, including a $2 billion line of credit negotiated in January 2013. Furthermore, it has provided a $10 billion loan to the Brazilian oil company Petrobras for the development of its offshore oil reserves, over $10 billion in acquisitions in the country's petroleum sector and $1.7 billion in investments in the Brazilian power infrastructure, not to mention some major investments (Ellis 2013). China's lending made up for the drying up of other financial sources after the financial crisis, and it has allowed the Latin American countries independence from the United States as well as from international financial institutions. Since Chinese loans generally have come without conditions, this has also given the countries of the region larger 'policy space'.

Latin America has also pursued a strategy of increased regional integration in order to increase independence and policy space and expand trade. From 2000, a number of new integration mechanisms and organizations were established and old ones were rejuvenated. The main new initiatives are the Union of South American Nations (UNASUR), the Bolivarian Alliance for the Peoples of our America (ALBA), the Pacific Alliance and the Community of Latin American and Caribbean States (CELAC). UNASUR was created in 2008 with the aim of bridging the two existing integration initiatives in South America, the Andean Community (CAN) and the Market of the South (MERCOSUR), and giving it a stronger political mandate, on the model of the European Union. While making UNASUR operative has been a long process, and the relationship between the CAN and the MERCOSUR countries has not been free from tensions, UNASUR has achieved a significant position in Latin American politics, and intraregional trade has increased steadily, if not strongly, over the last decade.[4] In parallel, ALBA was created by Venezuela and Cuba in 2004, incorporating later Bolivia, Ecuador and Nicaragua and four small Caribbean states. ALBA was based on an idea of exchange of goods and services agreed by the states rather than a goal of lifting general barriers to trade to allow for private actors to trade. The Pacific Alliance is a very different scheme: it was established in 2011 by Chile, Peru, Colombia and Mexico, aimed at a market-based integration, including integration of stock exchanges, as a means to strengthen growth but also importantly to benefit from closer relations with Asia. Several smaller countries in Central America (that have their own integration scheme in SICA) have approached the Pacific Alliance to become members.

As a result of regional integration, intra-regional trade grew only modestly, from approximately 16 to 20 per cent of total trade between 2000 and 2010, whereas trade with Asia (including China) quadrupled in the same period (ECLAC 2011). However, it would not be fair to judge the success only in terms of volumes of intra-regional trade. The regional arrangements have particularly helped small and relatively poor countries, such as Bolivia and Ecuador, to pursue expansive policies due to cheap oil, loans and investments from neighbouring countries. Yet, another effect has been to cement the differences

between the countries pursuing a neo-liberal model (Mexico, Panama, Costa Rica, Chile, Colombia, Peru) and those pursuing a developmentalist regional nationalism (Venezuela, Brazil, Argentina, Bolivia, Ecuador). While the former favours free trade, a minimum of state intervention in the economy and close cooperation with international financial institutions on macro-economic policy, among the latter there are various examples of protectionism, state intervention and conflicts over macro-economic policies (maybe particularly related to how to manage prices).

Regional integration has been complemented by active pursuit of alliances and agreements with countries and regions across the world. Mexico and Chile have led the way in the signing of bilateral free trade agreements (FTAs), while Brazil and Venezuela have been more active in signing broader cooperation agreements that include investments as well as loans and trade and other issue areas. Latin America has also been an active player in multilateral organizations. Brazil was a strong proponent of the new agreement of the World Trade Organization (WTO) that was signed in 2013 under the leadership of the WTO's newly appointed Brazilian secretary, General Roberto Azevedo. Venezuela has been an active player in OPEC and OPEC's success in limiting oil production came after an initiative to rejuvenate the organization taken by Venezuela's late president Hugo Chávez in 2000. This has been one of the reasons behind the last decade's high oil prices, from which Venezuela has benefited generously.[5] Thus, while favourable international conditions have played an important role, it is also the case that Latin American countries actively have attempted to affect those conditions. Moreover, it is clear that an increase in exports explains only a small share of the growth. Current growth is increasingly driven by increases in internal demand. Thus, we need also to look at domestic policies in order to understand current patterns.

New developmental policies and public spending

The combination of the international economic conditions and the rise to power of a number of new governments with an inclination towards the centre-left of the political spectrum led to a significant, albeit diverse, shift in social and developmental policies. One of the most striking changes has been the increase in social spending. This grew from 15.2 per cent of GDP in 2000 to 19.2 per cent of GDP on average in 2011 and, as a percentage of total public spending, it grew from an average of 60 to 65 per cent. The increase in absolute terms has been much more significant due to the simultaneous relatively high economic growth. Moreover, in the second half of the 2000s, the growth in social spending was mostly countercyclical: It was driven by policies that were applied to offset various external shocks – the sharp increase in food and fuel prices in 2008 and the global financial crisis (ECLAC 2013a). While most types of social spending increased, what characterized the centre-left countries was a stronger increase in direct transfers, including conditional cash-transfer programs, pensions and other types of non-contributive social security spending.

There has simultaneously been an increase in efforts to formalize informal work, increase minimum wages and provide public jobs in a form of counter-cyclical Keynesianism. Thus, total public spending has also increased from 25 per cent in 2000 to 29 per cent in 2002.

However, a stronger emphasis on social policies is only one aspect of the developmental policies pursued. The other side of the coin is a renewed emphasis on increasing state revenues and increasing the role of the state in directing – directly or indirectly – the economy. The level of public investments varies significantly across the region, but saw a particular increase in Venezuela, Bolivia and Ecuador. The main investment increase came from private investors, but they were increasingly supported by national development banks that in 2009 accounted for 30 per cent of total lending to the private sector, and in some countries up to 70 per cent. While tax revenues are still low compared to the OECD, they also increased steadily between 2000 and 2010 and Brazil and Argentina now have tax levels comparable to OECD countries (35 and 33 per cent of GDP, respectively), while countries such as Mexico and Guatemala lag far behind with approximately 12 per cent, while Venezuela has experienced a drop from around 18 to 14 per cent (ECLAC 2012).

The nationalist aspects of this strategy is particularly strong in the increasing emphasis on building national industries, requiring national content in foreign direct investments (through the use of domestic services and goods), requiring increased return from FDI, particularly increased royalties in natural resource investments, but also in some countries – notably Venezuela, Bolivia and Argentina – through nationalization of industry. This bears resemblance to the developmental strategies once devised by regional organizations such as the CEPAL and the IDB in the 1950s, but has so far failed to really produce a significant structural change. There are also other aspects of the current policies that may lead to caution.

New developmentalism and new extractivism: the challenges of sustainability and structural change

As the first decade of the 2000s ended, there were significant worrying signs. First, 2012–2013 saw weaker growth in most countries than the years before, and the protracted slowdown in Europe and the United States as well as weaker growth figures in China started to hit. However, more importantly, as argued by several of the region's leading economists, few countries had used the opportunities provided during the 'growth decade' to engender structural change – that is, to shift resources from less to more productive sectors (ECLAC 2012, see also Solimano & Schaper, Chapter 12 in this volume). The old distinction between agriculture and industry as less and more productive sectors is increasingly obsolete, as intensive agricultural production has become highly productive in economic terms (see also Stølen, Chapter 11 in this volume). Thus, commodity dependency does not necessarily mean low productivity or low technology. The domestic sector that has increased most is the service sector, and this accounts

much more for low productivity than commodity extraction. Nevertheless, deep breeches remained between highly productive sectors and segments and low productive and low-paid sectors and segments. This was increasingly viewed as a barrier not only to continued, sustained growth, but also to further inequality reduction due to high wage differentials between different sectors (ECLAC 2012).

Moreover, in spite of the fact that global economic commentators increased their faith in Mexico as the new growth engine when Brazil lost some of its attraction due to weak growth performance in 2012 and 2013, the gap between North, Central and South America became increasingly obvious. Mexico and parts of Central America (notably El Salvador, Guatemala and Honduras) that remained highly dependent on the US economy struggled with volatile growth and weak performance in terms of poverty reduction, as well as deep penetration of organized crime. Although South America's performance varied greatly, commodity dependence gave them more policy space (ironically as this historically has been viewed as a main vulnerability of the Latin American economies), which in many countries was used to create buffers against external volatility. However, some of the leftist countries, notably Venezuela and Argentina, were increasingly characterized by economic mismanagement and high inflation, in spite of continued strong performance on social indicators.

Yet, one of the greatest worries of the development patterns in Latin America relates to the environment. There are two principal reasons. The first is the increase in natural resource extraction with related pollution, and competition for land and water resources. As noted above, the extraction of fossil fuels, metal ores, industrial and construction minerals, and biomass in Latin America has increased rapidly. An analysis attempting to calculate the total extraction of natural resources found that, in 1970, the total extraction of materials was 2.3 billion tons, in 1980, 3.5 billion tons, and in 1990, 4.3 billion tons. In the period 2000–2008, regional extraction rose from 6.1 to 8.3 billion tons (a 36 per cent increase). Analyses of individual countries found, for example, that after a relatively steady phase of annual extraction in Argentina of around 400 million tons of material from 1970 to 1997, from 1998 to 2008 this increased to almost 700 million tons annually. In Ecuador, annual material extraction tripled from 30 million tons in 1970 to 105 tons in 1996, and after a dip it rose to 118 million tons in 2006 (ENGOV 2013).

This is not only an unsustainable pace of extraction of mining and other non-renewable resources, it also puts a strain on water resources and pollutes the soil, as well as increases the skewed distribution of land. As a result of this, there is a steep increase in conflicts over natural resources. As a result, according to the Observatory of Mining Conflicts in Latin America (OCMAL), there are currently more than 195 active conflicts due to large-scale mining in the region. Peru and Chile lead the list, with 34 and 33 conflicts respectively, followed by Mexico with 28, Argentina with 26, Brazil with 20 and Colombia with 12.

Also oil extraction provokes conflicts across the region due to oil spill and pollution. The largest and most well-known case is Chevron-Texaco's dumping

of billions of gallons of toxic wastewater into the Ecuadorian rainforest in the Amazon region between 1964 and 1992, creating an environmental disaster of enormous dimensions. This and other blatant abuses by multinational companies aided by local elites were among the factors that led to the rise of social movements which eventually contributed to the rise to power by several centre-left governments, including those of Rafael Correa in Ecuador, Evo Morales in Bolivia and Luis Inácio Lula da Silva in Brazil. However, in power, they have maintained quite contradictory practices. They have had a more open dialogue with the environmental and other social movements. For example, in Brazil, a major effort was made to reduce deforestation in the Amazon; in Ecuador, new regulations were introduced to make oil extraction more sustainable; and Bolivia set forth to strengthen small-scale sustainable agriculture. However, the same governments have made economic growth a main priority and gone back on early promises, such as respecting indigenous territories and prohibiting genetically modified organisms (Gudynas 2010, Andrade & Zenteno 2014). Therefore, they are also increasingly in conflict with social movements that previously were among their supporters (Bull 2013).

Whereas land and resource conflicts abound in the rural areas, there is a second main challenge related more to urban consumption patterns. This is the much celebrated rise of a new Latin American middle class (Ferreira *et al.* 2012). The new middle class consists of people that previously lived below the poverty line, but that are now able to buy new consumer goods and possibly a car. While generally a good sign, it also put strains on the use of energy and water, urban infrastructure and waste systems. Latin America is found to be highly dependent on energy for increase in GDP per capita. For example, Barreto and Campo (2012) find that energy use increases by 1 per cent for a 0.40 per cent increase in GDP, and that this is largely due to the high energy dependence of the service sector that accounts for almost 60 per cent of the region's GDP. While a number of policies have been implemented to increase the supply of energy, among other things through regional integration projects discussed above, the popularity of current governments rests to such extent on the rise of living standards among popular sectors that limitations to consumption beyond limited schemes restricting water consumption in specific areas are a hard sell.

Conclusion

Latin America has recently come out of a decade of significant positive changes. Economic growth, innovations in social policy and reduced poverty have gone hand in hand with a shift in international alliances, leading to stronger regional integration and less dependence on the United States. At the centre of the developments has been the return of the state as a key development actor in many countries. Through the state, new social policy programs have been created and old programs have been expanded. The states have supported large national companies that have expanded across borders, and they have made

investments in national industrial upgrading. Moreover, the states are driving new forms of regional integration and international alliance building. The results are not only improvement on economic indicators; as Latinobarómetro has consistently shown, the Latin Americans' view of their own situation is also improving and they are generally more optimistic towards the future (Latinobarómetro 2013). In many respects, the Latin American experience of the last decade is a classical process of development as defined by Bull in Chapter 2 of this volume. However, development is never without conflicts and disadvantages. The renewed role of the state has occurred in the context of a centralization of state powers and capacity, which often has created conflicts with local communities that historically have been weakly incorporated in the national states, particularly when they have not been offered sufficient advantages from the development (see García-Godos and Wiig, Chapter 13 in this volume). Rapid urban development has occurred at the expense of poor neighbourhoods and engendered new congestions and urban challenges (see Braathen and Kasahara, Chapter 10 in this volume). And when the state set forth to ensure state building and poverty reduction simultaneously, the losing part is very often the environment. Thus, as the Latin American economies 'emerge', so do conflicts over use of natural resources, economic distribution and management of the increasing state resources.

Notes

1 This is based on statistics from ECLAC, which uses national poverty lines.
2 The numbers for Argentina are based on national (relative) poverty lines and are only based on the urban population (which is 93 per cent of the whole population). It should be remembered that 2002 was a historical peak in poverty levels due to the 2001 economic crisis. There is also some question over the real poverty levels for the latest years due to controversies regarding actual inflation.
3 http://en.mercopress.com/2013/05/22/china-latam-trade-expanded-8-in-2012-and-region-s-deficit-jumped-to-6.6bn.
4 Both CAN and MERCOSUR are now full customs unions, but MERCOSUR has generally pursued a more protectionist policy towards third parties. Due to CAN's association with a neo-liberal free trade idea and its signing of a free trade agreement with the United States in 2006, Venezuela decided to leave it and applied for membership in MERCOSUR, something that it was finally granted in 2012.
5 Other factors contributing to that was of course the Iraq War and the 11 September attacks in 2001.

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10 Brazil, land of the future?

Conservative development strategy and the urban challenge

Einar Braathen and Yuri Kasahara

Brazil has been praised during the last decade as a successful case of combining moderate economic growth and significant poverty reduction with a stable and vibrant democracy. However, has the Brazilian development strategy trailed a sustainable path so far? What have been its achievements, and what are its limitations? Does Brazil seem to fulfil Stefan Zweig's prediction of becoming the *land of the future*?[1]

This chapter examines the set of policies pursued by president Luiz Inácio Lula da Silva since his election in 2002. Despite high expectations, abroad and domestically, of radical changes in Brazil following his election and the political rise of the Labour Party (PT), we argue that the development strategy implemented so far has actually been rather conservative in a double sense: First, it represents a continuity rather than a rupture with the macro-economic orthodoxy of the previous administration, emphasizing low inflation, fiscal discipline, market-led economic growth and integration with the global capitalist system (Kingstone & Ponce 2010; Hunter 2011). This conservatism did not prevent Lula's administration, however, from introducing ambitious government programmes and even innovative and dynamic social policies, regarding areas such as cash transfers and housing.

Second, Lula's presidency was characterized also by the rule of a broad political coalition made between the main centre-left parties and the traditional economic and political elites. This conservative pact has constrained the room for manoeuvre of many radical elements within Lula's government and the PT, leading to a slow strangling of many initiatives of direct political participation, such as the replication of participatory budgets and encompassing city planning councils at municipal levels (Baiocchi *et al.* 2013). With near 89 per cent of its population living in urban areas, the weakening of innovative strategies to strengthen political participation and decision-making at the local level was a main source of disappointment among many social movements (Rolnik 2013). Additionally, this pact weakened the voices of environmental groups that traditionally were at the base of PT, since the government increasingly favoured interest groups formed by land-owners and big business.[2] In many senses, what we argue in this chapter is that Lula's victory represented the normalization of PT as a competitive political party and this conservative strategy was rather

similar to what most centre-left governments have pursued around the globe. The recent Brazilian experience, therefore, despite its achievements, is far from representing an innovative model of development.

The first section presents Brazil's development strategy under Lula, with its emphasis on a process of social inclusion through improved consumption patterns and employment. The second section identifies the type and extent of poverty reduction in Brazil, focusing on emerging policy challenges of urban areas. The third section analyses Rio de Janeiro, former capital and the second largest metropolis of the country. It is ruled by the same political coalition as seen on the federal level and shows the limitations of these forces to combine social and environmental improvements with economic growth in innovative ways.

Brazil's development strategy under Lula: social inclusion through consumption

André Singer (2012) has offered an account of the Lula period that has attracted much discussion and recognition in Brazil.[3] According to him, the country has benefited since 2003 from the boom of commodity prices in agriculture and mining sectors fuelled by high Chinese demand. President Lula exploited this situation to 'adopt policies to reduce poverty (…) and to activate the internal market, *without confrontation with the capital*' (Singer 2012, p. 13). The main goal of this socio-economic development strategy was to increase purchase power and improve consumption standards of the poorest tiers of the population.

In order to accomplish it, the government employed several instruments. First, it centralized several cash-transfer programmes into a single one – the *Bolsa Família* (BF) programme. The programme consists of direct cash transfers to the bank accounts of poor families, normally managed by the household's female head, conditioned by the commitment that the existing children will maintain high school attendance and go regularly to health check-ups. Second, it approved annual increases of the minimum wage far above the inflation rate. Third, it implemented policies that facilitated access to consumption credit for goods and stimulated public investments in infrastructure contributing both to higher economic growth and to employment rates. Consequently, informal labour was reduced, ensuring more socio-economic rights to the lowest paid segments of the work force.[4]

Singer points out that each of these reforms was modest, but put together they allowed a significant social transformation. There was an important material uplift of the poorest half of the population, including the poorest 10 per cent. In the past decade, the income of the poorest 10 per cent of Brazilians has almost doubled in real terms, whereas that of the richest has grown by less than one-fifth. Brazil's Gini coefficient, a measure that expresses income inequality, reduced from 0.587 in 2002 to 0.526 in 2012 – a 50-year low.[5] Looking from a socio-economic perspective, what had almost for a century

constituted 'the permanently super impoverished working surplus population' (*sub-proletariat*), has become the 'new proletariat' in Brazil (Singer 2012, pp. 15–16).

While playing to the galleries, President Lula also actively supported capitalist accumulation and secured the privileges of richer classes through increasing the supply of public credit to domestic firms and abandoning radical pensions systems and land-ownership reforms. In this way, he smoothed resistance against pursuing moderate redistributive policies, mainly through cash-transfer schemes and minimum wage increases, financed by improved household consumption rather than the implementation of a more progressive tax system.

Singer (2012) calls this social and political strategy *lulismo*, mainly because of the charismatic role played by President Lula in sewing alliances with different sectors of society. In other words, *lulismo* can be interpreted as a combination of gradual reforms favouring the poor, while establishing pacts with richer tiers of society. Montero (2005) has underpinned 'reforms under oligarchic-conservative control' as the main characteristic of Brazilian politics after the new democratic constitution in 1988. Although Singer (2012) agrees that there is a strong policy-continuity between the governments of Fernando Henrique Cardoso (1995–2002) and Lula (2003–2010), he argues that Lula's presidency created conditions for collective and individual social uplift through an increased focus on raising consumption standards of Brazil's poorest segments. A process, however, that neglected the improvement of the supply of important public goods, such as health care and education (Hunter & Sugiyama 2009).

Politically, this strategy paid off. Lula was re-elected in 2006 due to a remarkable growth in support in the Northeast region – a traditional stronghold of conservative politicians that held power through clientelism – and among the poorest social layers.[6] Such renewed political support, made possible for Dilma Rousseff, Lula's former chief-of-staff, to become in 2010 the first female president of the country. Since her election, President Dilma has clearly continued Lula's policies, emphasizing the expansion of the BF cash-transfer programme and the support of public credit to the economy.

However, how sustainable is this *lulista* formula – a conservative pact for economic growth with selective social reforms which enhance consumption that seeks to preserve the wealth and privileges of the richest 1 per cent of the society?

In *economic* terms, China's economic slowdown during the early 2010s has signalled the end of the commodity boom – the main engine of Brazilian growth during the 2000s. The average annual growth of 4 per cent of the gross domestic product (GDP) during Lula's presidency has decreased significantly during Dilma's first mandate, when growth was on average 2 per cent between 2011 and 2013. While incentives to consumption have contributed to increase domestic demand and maintain record-low unemployment rates (under 5 per cent in 2013), the slow pace of investments in infrastructure, the complex and burdensome tax system and labour regulations, the lack of an educated workforce and high levels of household indebtedness are evidence that the formula for economic growth of the Lula period has reached its limits (*The Economist*

2013). As protests spread to more than 400 cities in June 2013, claiming for better public transportation, schools and hospitals, the ascending lower middle class that profited from the Lula years shows signs that it aspires to more.

In *environmental* terms, the *lulista* socio-economic model has presented many side effects. The emphasis on increased domestic production and consumption led to policies that favoured traditional industrial sectors, such as the automobile industry. The government has constantly reduced taxes over the production of cars in the country as a strategy to stimulate the economy – particularly after the 2008 financial crisis. It also has systematically reduced federal taxes over fuels, eliminating them completely by 2012. As a result, the numbers of vehicles in Brazil more than doubled in a decade, increasing from 34.9 million in 2001 to 76.1 million in 2012 (Rodrigues 2013). At the same time, public investments have been affected by fiscal exemptions since part of the tax collection is earmarked to fund improvements in transport infrastructure. The endless traffic congestions and sharp increase in the CO2 emissions from the metropolitan regions are some of the clear effects of these policies (Rodrigues 2013).

Overall, however, Brazil has managed to curb the national CO2 emissions thanks to extensive ethanol fuel use in auto vehicles and a reduced deforestation rate in the Amazonas region (Braathen 2010).[7] However, other initiatives to promote growth have presented controversial environmental implications. The main 'bulldozer' has been the *Programa de Aceleração do Crescimento* (PAC), which funds, among many infrastructure projects, a series of large hydropower plants to bolster electricity supply, particularly in the North and Northeast of Brazil. The emblematic case has been the Belo Monte project located in the Para state on the Amazon region. Expected to be the world's third biggest hydro plant when finished, it has been raising many controversies due to its impact on the environment and livelihoods of indigenous populations located in the area. These developments have caused conflicts with indigenous peoples not seen in Brazil since 1988 when the new Constitution guaranteed their rights (Braathen & Inglez de Sousa 2014).

Another important development in recent years was the discovery of large oil reserves off the Southeast coast of Brazil. With estimates of almost 50 billion barrels, the reserves are located in off-shore pre-salt layers under very deep waters and demand enormous investments for its exploration. The first licenses for exploration of the *pré-sal* – as called in Brazil's public debate – were auctioned on 21 October 2013. The oil and gas production of Brazil is planned to triple by 2035 and both Lula and Dilma's governments have made clear efforts to make the oil industry an important axis for future economic growth. Despite all the positive expectations about the new oil fields' exploration, there has been very little debate about potential negative impacts. Risks of blow-outs and large-scale oil spills have not been properly and critically assessed – neither have the implications of Brazil becoming a major exporter of CO2 and an important contributor for the global warming process (Braathen 2014a). As President Lula declared in 2009: 'The pre-salt is our passport to the future' (Marinho & Costa 2009). The question is: to which future?

Urban Brazil: non-sustainable poverty reduction?

During the last 15 years, Brazil has reduced its numbers of poor at amazing rates. According to the Instituto de Pesquisa Econômica Aplicada ([IPEA] 2013), the number of poor dropped from 41 million in 2002 to 15.7 in 2012.[8] But what type of poverty has mainly been reduced, and to what extent? What were the limitations of the poverty reduction policies imposed by the conservative pact underlying the *lulismo*?

Weaknesses in the Brazilian welfare capitalism

Using the typology developed by Esping-Andersen (1990), one can identify a pattern that puts Brazil closer to a *conservative* welfare system, with an important stratification around formal (and informal) employment, and family's active role as risk-insurer. Recent developments in Brazil's welfare system based on conditional cash transfers move it towards a liberal model based on means-tested benefits to insure against extreme poverty conditions. This emerging model has been defined as a *liberal-informal* one with its emphasis on the protection of individuals with informal employment status (Barrientos 2009). Such development puts Brazil far from a *social democratic* model that prioritizes the expansion of public service provision in order to ensure universal access to education and health.

Despite Brazil's progress in expanding basic education and access to the public health system, the quality of services provided are far from satisfactory. The evolution of federal public spending reflects well this dynamic. Federal government transferences to state and municipal administrations – which are mostly earmarked for the provision of health and educational services – have seen a modest increase, from 5.1 per cent of the GDP to 5.8 per cent during the period 2001–2011. Meanwhile, expenses with transfers to households, comprising cash-transfer programmes, public pensions and unemployment benefits, increased from 8.2 per cent of the GDP to 10.2 per cent during the same period (IPEA 2011). Besides the expansion in programmes such as BF, the increase is explained by the systematic raises of the minimum wage since most benefits (i.e. pensions and unemployment benefit) are pegged to it.

The prioritization of social policies that favoured consumption at the expense of the universal provision of public services has kept schools and hospitals in Brazil underfunded and delivering poor results. Consequently, the private market for health and educational services has grown during the period. The coverage of private health insurance increased from 32 million people in 2003 to 49 million in 2013 (Agência Nacional de Saúde Suplementar [ANS] 2014). Effects on education can be identified in the increase of students enrolled in private schools in recent years, despite the dominance of public institutions with more than 83 per cent of the total (Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira [INEP] 2013). Additionally, despite some improvements of its performance in Programme for International Student

Assessment (PISA) tests between 2003 and 2012, Brazil still lags far behind the average scores achieved by the Organization for Economic Co-operation and Development (OECD) countries (OECD 2013; INEP 2014).

In general, the *lulismo* has failed to strengthen a public sector with institutional and financial instruments necessary to guarantee a process of both *decommodification* of services and long-term development of individual capabilities. The public sector is not efficient or popular enough to counter the transference of welfare services' provision to market mechanisms. Although able to alleviate immediate needs of millions of people and improving their quality of life, poverty reduction based only on increased consumption standards is far from sustainable, requiring major reforms in government funding and expenses.

Challenges of urban poverty reduction

Brazil's intense urbanization is an important consideration when analysing the scope of poverty reduction policies during the Lula period. Following a pattern that began during the 1960s, Brazil's urban population increased from 75.4 per cent in 1991 to 84.3 per cent in 2010 (Instituto Brasileiro de Geografia e Estatística [IBGE] 2010a). This trend had important impacts on the structure of distributive conflicts in Brazil, shifting its main locus from rural areas to urban ones.

First, the force of the landless movement (*Movimento dos Sem-Terra*, MST) has been diminished by the steady reduction of its social base. Second, the favouring of an agribusiness model intensive in capital was an essential part of the conservative pact made by Presidents Lula and Dilma with big producers of soya and meat – important export items of Brazil – and explains the parsimonious way in which land reform has been conducted during recent years. Third, living conditions of urban populations have become a major issue for policy makers as most poor people have lived in precarious housing conditions (slums) after migrating from rural areas. Nowadays, Brazil experiences a housing deficit that is basically an urban phenomenon. According to Furtado *et al.* (2013), 85.7 per cent of the estimated housing deficit in the country is in urban areas. Additionally, poor urban infrastructure and high levels of criminality in metropolitan regions have become pressing issues affecting the life of city-dwellers of all classes.[9]

As discussed above, Lula's presidency was characterized by an important reduction of poverty through the increase of household incomes. In material terms, the percentage of households owning simultaneously basic goods such as telephones, televisions, washing machines, refrigerators, radio and cooking plates increased from 28.2 in 2002 to 46.6 by 2012 (IPEA 2013).

Improvements in housing basic infrastructure, however, evolved at a much slower pace. The percentage of households with simultaneous provision of water, sewage, electricity and waste collection rose from 51.1 in 2002 to 59.2 by 2012. Such improvement in housing conditions must be contextualized in a scenario where there was an increase in the number of people living in

illegal/precarious settlements (*aglomerados subnormais*) during the 2000s.[10] According to IBGE (2010b), the population living in these areas increased from 3.9 per cent to 6 per cent between 2000 and 2010. As Table 10.1 shows, this dynamic was particularly strong in Brazilian state capitals where the number of households in such settlements was at best stable in cities such as Fortaleza and Curitiba, while dramatically increasing in Salvador and Belém.

There is no doubt that there were improvements in housing infrastructure during the 2000s. Access to electricity has become almost universal in Brazil, with 97.8 per cent of the households connected to the grid – although these numbers were already high in 1995,[11] followed closely by access to tap water. In metropolitan areas of Brazil's South and Southeast regions, access to tap water became almost universal. In metropolitan areas of the North and Northeast, the rates vary from 80 per cent of the households in Belém to near 95 per cent in Salvador. The challenge, however, resides in expanding sewage collection and treatment systems in metropolitan areas. Despite improvements, access to a sewage network is highly heterogeneous among Brazilian cities. Between 1995 and 2007, some cities experienced impressive improvements, such as Fortaleza and Salvador, departing from very low coverage levels. However, due to recent pressures of urbanization, the coverage has slightly dropped in these same areas. In Figure 10.1, it is possible to see the evolution of the sewage system coverage in some selected cities. The strong regional discrepancies reflect the complex inter-governmental interaction required to make huge investments to improve the situation. As investments in expanding sewage collection and disposal systems are normally high, municipal and state governments require financial help from the federal government. Additionally, inefficient management, low-quality projects and excessive bureaucracy have contributed to slow down the construction pace. According to non-governmental organization Instituto Trata Brasil (2013), of a sample of 138 projects of expanding sewage systems funded by the PAC programme initiated in 2009, only 26 were finalized by the end of 2013.

Table 10.1 Percentage of households in illegal/precarious settlements (*aglomerados subnormais*) in selected state capitals

Municipality	*2000*	*2010*	*Variation 2000–2010 (%)*
Fortaleza	15.8	15.3	–0.5
Curitiba	7.9	8.1	+0.2
Belo Horizonte	10.6	11.5	+0.9
São Paulo	7.7	10	+2.3
Porto Alegre	8.6	11	+2.4
Rio de Janeiro	17	19.8	+2.8
Distrito Federal	1.4	4.7	+3.3
Recife	9.1	21.7	+12.6
Belém	33.8	52.5	+18.7
Salvador	9.3	32	+22.7

Source: elaborated by the authors based on data from Marques *et al.* (2008) and IBGE (2010b).

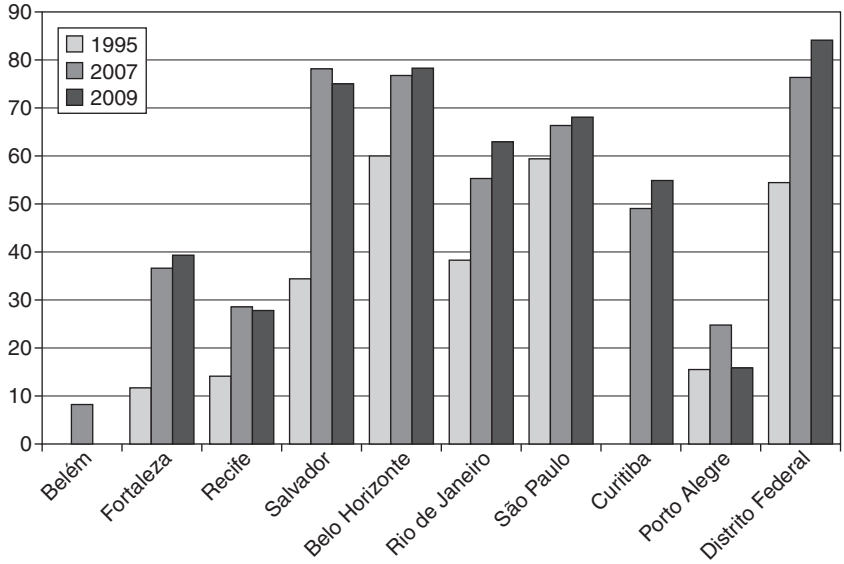

Figure 10.1 Percentage of households connected to a sewage network in selected metropolitan areas (source: elaborated by the authors based on data from IBGE 1995, 2007, 2009).

These numbers show the challenges of improving the life of poor people in big cities beyond an expanded access to consumer durables. Universal sewage networks and adequate housing in big cities have been goods much more difficult to provide – together with the provision of public health and education systems. The evidence suggests that changes made by Lula were important, but modest, regarding the construction of a sustainable path to poverty reduction. In particular, these limitations are more evident when we look at how governance systems of municipalities have improved very little in terms of being more participatory and transparent.

Rio de Janeiro: combining social and environmental improvements?

The municipality of Rio de Janeiro, former capital of the country and its second largest city, has been administered by Mayor Eduardo Paes from the Brazilian Democratic Movement Party (PMDB) since 2008 with the support of the PT – the same coalition at the federal level since Lula's election in 2002. As most cities in Brazil, it also has experienced an increase in precarious settlements and has been struggling for decades with a chaotic urbanization process. The current housing policies show at the local level the limits of Lula's development model.

Traditionally, the usual response of public authorities to the growth of Rio de Janeiro's slums was alternate waves of indifference and repression. This trajectory changed in the 1990s. In 1993, the programme *Favela-Bairro* was launched by the municipality, with the financial support of the Inter-American Development Bank (IADB). The programme focused on infrastructure improvements in slums (i.e. streets, public illumination, water and electricity supply). Additionally, it had the ambition to legalize ownership in slums through the establishment of Areas of Special Social Interest (AEIS). However, only a few areas had their situation regularized by its conclusion in 2008. A crucial limitation of *Favela-Bairro* was the lack of actions to increase housing supply for poor people. Consequently, the chronic deficit in the city persisted and worsened in recent years. The underlying logic driving the project was to improve favelas closer to rich neighbourhoods and touristic areas in order to increase the attractiveness of Rio de Janeiro to investors (Braathen *et al.* 2013).

Like many urban upgrading programmes elsewhere, *Favela-Bairro* had public 'environmental' aims. In practice, however, this commitment led to beautification and gentrification instead of long-term improvements of slums infrastructure. Sewage networks were not developed in parallel to storm water drainage systems to help settlements on slopes to become more resilient against the frequent torrential rains. Consequently, floods and land-slides cause deaths almost every year – with 250 people dying only on 5 April 2010. As a response, the municipality installed after 2010 a sophisticated weather forecast and evacuation system (*Alerta Rio*) with the purpose of monitoring rainfall in the whole city, but particularly in more vulnerable settlements. Additionally, the municipality has decided that slums in environmental risk areas are to be demolished. This way, environmental arguments are often used to justify the removal of slums from rich and downtown areas (Braathen 2014b). Consequently, slums have been transferred from central areas in Rio de Janeiro to more peripheral ones. This dynamic is strengthened by the municipal implementation of the federal housing programme *Minha Casa, Minha Vida*. Its aim is to upgrade all the favelas of the city by 2020, but this programme also includes demolitions and people being relocated to new low-cost housing blocks in the periphery of the city and normally built by private entrepreneurs following the financial subsidies given by the federal and municipal governments (Santos Junior *et al.* 2011). Socially, these programmes continue earlier practices of spatial segregation, as urban infrastructure and public services are poorer in peripheral areas. Environmentally, there is still an absence of large-scale programmes to improve infrastructure for sanitation and storm water drainage.

Moreover, this trend has gained momentum with the city's preparation for mega sports events: the 2014 FIFA World Cup and the 2016 Olympic Summer Games. According to Braathen *et al.* (2013), 80 per cent of the investments for these events will mainly benefit the high and middle-class neighbourhoods, at the expense of the removal of houses in slums for the construction of new sports arenas, transport corridors, parking facilities and water-front leisure areas. Since the confirmation of Rio de Janeiro as host for these events, 117 favelas have been demolished.

As a response, new social mobilizations of city-dwellers and civil society organizations have emerged to resist this conservative re-organization of urban space. One important network that emerged recently is the *Comitê Popular da Copa e das Olimpíadas*, a civil society body created to discuss the social costs of the sport events and the malfunctioning of participative and representative institutions at the local level. The city council and the consultative council for urban policy (*Conselho Consultivo Municipal de Política Urbana*) do not contribute to solve the conflicts between city developers and citizens, since they are dominated by business sector interests and conservative groups supportive of removals. Additionally, the consultative council has not been functioning for the last couple of years due to lawsuits against the process of electing delegates. With political channels clogged, these new movements have often been going to court, appealing to economic and social rights embodied in the Constitution as legal base (Braathen *et al.* 2013).

Struggles involving demands for affordable and efficient public transportation have also emerged (Santos Junior 2009). The *Movimento Passe Livre*, a student-based movement for free public transport, initiated demonstrations in June 2013 during the FIFA Confederations Cup in the city of São Paulo. The demonstrations spread quickly to other Brazilian cities, including Rio de Janeiro, mainly because of the excessive police force used against the initial demonstrations. On 21 June 2013, there were one million people in the streets in Rio de Janeiro, and at least ten million people in all of Brazil. Everywhere there were banners expressing rage against the financial priorities of the politicians, the lavish spending on mega sports events, forced evictions and the mediocre state of the public services in different sectors (Maricato 2013).

In a comment about these large street demonstrations, André Singer claimed that the protests were part of the 'ascension' of the 'new proletariat'. These people have gained employment and higher income, but their lives are still 'precarious', particularly in the cities. 'The demonstrators want higher public expenditures, while the market forces demand austerity. This will put the current Dilma government at the crossroads' (Evelin 2013, n.p.).

Concluding remarks

We have argued in this chapter that Brazil under the administrations of PT, particularly under President Lula, has achieved impressive poverty reduction and improvements in the material life of the poorest segments. However, the strategy underlying such achievements is far from trailing a sustainable and innovative path and its limitations are becoming more evident in recent years.

First, the buoyant international commodity prices of the last decade are showing signs of moderation. With the end of high commodity prices, the government's ability to implement moderate redistributive policies and maintain historical low levels of unemployment is considerably reduced. Additionally, the lack of reforms that could improve Brazil's competitiveness has made the industrial sector vulnerable to foreign competition and dependent on government incentives, as in the case of auto vehicles.

Second, the economic growth has led to an increase in energy consumption to levels that have forced the provision of electricity to increasingly be supplied by thermal plants. Simultaneously, the investments in expanding renewable energy sources, such as hydro plants, pose controversial environmental and social challenges. In cities, the fast increase of the car fleet was accompanied by controls on gas prices and a lack of attention to improving public transportation. Consequently, despite progress in the control of emissions by deforestation, Brazil faces the challenge of rethinking its environmental agenda beyond the Amazon forest. Unfortunately, the exploration of new oil fields has contributed very little to such rethinking.

Third, the policies of socio-economic inclusion pursued by Lula's presidency have clearly prioritized improving consumption standards of poorer classes through expanded cash-transfer programmes and raises in minimum wages. Despite their positive effects, this strategy has neglected important aspects related to the quality of life of Brazilian poorer classes – especially for those living in big cities. Housing conditions, public transportation, the provision of health and education services, and security are some of the areas that either have experienced minor improvements or deteriorated in recent years. Additionally, the promises of new mechanisms of societal participation were abandoned in favour of compromising with more conservative sectors of Brazilian society and pursuing electoral goals.

Considering this context, it is difficult to argue that the Brazilian trajectory brings something new to the concept of sustainable development. Rather the opposite – the Brazilian achievements in recent years seem to reproduce a traditional trajectory of industrialization and modernization based on the exploration of natural resources, limited redistribution and superficial environmental concerns. Instead of pointing to a new future, Brazil seems to be haunted still by past and present ghosts of Western development models.

Notes

1 Stefan Zweig's book *Brazil, Land of the Future* was published in 1941 and described the country with an optimistic view contrasting with a Europe in war. Since then, its title became a common refrain in Brazil, used both for praise and criticism.
2 The resignation of Marina Silva as Minister of the Environment in 2008 represents well this dynamic. A traditional activist, Marina Silva left the government criticizing the pressures of interest groups within and outside government to accelerate the approval of projects with high environmental impact – mainly in the Amazon region.
3 Besides being an academic, André Singer served also as the spokesperson and press secretary of President Lula from 2003 to 2007.
4 The number of workers with a formal contract, and thus able to enjoy the rights and benefits of social security, has increased from 54.8 per cent in 2000 to 65.2 per cent in 2010 (Resgate histórico 2012).
5 However, based on data from the World Bank (2014), Brazil remains the thirteenth most unequal country in the world.
6 As Zucco (2008) shows, the electoral support of these new groups came at the cost of PT losing terrain in its traditional base of highly educated middle-class and more industrialized regions of Brazil.

7 The pressure from the agribusiness and cattle industries to expand moved from the Amazon rainforest to the savannah areas (*cerrado*), where the subsequent slash and burn of natural biomass is underestimated. Moreover, the environmental advantages of sugar-based biofuels, largely promoted by the Brazilian government during the last decade, have been questioned. For further discussion, see Sawyer (2014) and Azadi *et al.* (2012).
8 Measured by the current poverty line adopted by the Brazilian government: less than R$140 of household income *per capita* – approximately US$65.
9 The national homicide rate (murders/per 100,000 inhabitants) was almost stable, varying from 27.8 to 27.1 between 2001 and 2011. Despite an important reduction, the homicide rates in Brazilian state capitals continued to be much higher than the national one, varying from 46.5 to 36.4 during the same period (Waiselfisz 2013).
10 It is important to note that the definition of *aglomerados subnormais* considers the legal status of the household (i.e. squatting) in addition to the lack of basic infrastructure.
11 These data do not make a distinction between legal and illegal electrical grid connections.

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11 Agricultural change in Argentina

Impacts of the gene modified soybean revolution

Kristi Anne Stølen

Over the last decade, Argentina has experienced a period of growth combined with improvement on a number of social indicators, including poverty reduction and decline in inequality, said to characterise the Latin American version of emerging economies (Bull, Chapter 9, this volume). Like in a number of other Latin American countries, this has involved state engagement in developmental policies, financed through intensified exploitation of natural resources.

This chapter focuses on Argentina's recent agricultural modernisation process generated by export-driven growth, to a large extent based on the new biotechnology associated with GM soy production. This export-driven growth strategy was expected to help the Argentine government to reduce poverty and inequality through revenues from export tax on agricultural products, especially soy and its derivatives. The expansion of GM soy was also expected to have positive environmental effects because of savings from reduced pesticide use and reduced soil erosion due to less intensive tilling.

In terms of economic growth, Argentina's transition to GM soy has been a success. However, there seems to be an increasing conflict between the economic success and socio-environmental sustainability (Leguizamón 2013). The first part of the chapter examines the process of expansion of soy production at the national level. The second part, based on longitudinal anthropological research among farmers in Santa Fe province, examines in more detail the impact of the GMO revolution on economic and social relations at the regional and local levels.

The expansion of soy in Argentina

At the beginning of the twenty-first century, after more than ten years of widespread neoliberal models of development in the region, Argentina experienced the worst socio-economic crises in its history. The result of wholesale privatisations, deregulation of all kinds and an indiscriminate opening to the world economy was that the Argentine economy fell from recession to full-scale depression, culminating in a double-digit negative growth in 2001–2002. Foreign debt had increased substantially until the default became inevitable in 2001 (Teubal 2004). In 2002, unemployment reached over 25 per cent and, in

many working class neighbourhoods, over 50 per cent. Banks closed, depriving millions of depositors of their savings.

When Nestor Kirchner was elected President in 2003, he rejected efforts to enforce debt payments or repress the popular protest movements. Instead he inaugurated a series of emergency public works programmes. Among other things, he authorised payments to unemployed workers to meet the basic needs of nearly half the labour force.

During 2003, the situation started to change. Argentina's economy had grown over 90 per cent from 2003 to 2011. Its recovery has been accompanied by a tripling of social spending, especially on programmes reducing poverty (Petras 2011).

This recovery was possible due to a number of economic policy measures, among them the devaluation of the peso, which gave a large boom to the exporters and also increased the impact of exports on the economy (Weisbrot and Sandoval 2007). Increased exports of agricultural products were to play an important role in the economic recovery. Export-driven growth assumed a globally competitive modern agricultural sector in which biotechnology was to play a key part. Biotechnology was received as a welcome development that offered the prospect of extracting greater profits from using land more efficiently, but with fewer inputs, therefore reducing production costs. Unlike other developing countries whose view of the new biotechnology has been informed by concerns of food security, Argentina embraced this technology on grounds of its export potentials (Newell 2009).

The GM soy Roundup Ready (RR) of the American multinational company Monsanto, engineered to be tolerant to Roundup (Monsanto's formulation of the herbicide glyphosate), was introduced in Argentina during the Menem government in 1996. This was not a result of a democratic process. The decision was taken without any support from independent environmental impact studies, without any public consultation, without any parliamentary debate or legislation. A National Advisory Committee on Agricultural Biotechnology (Conabia), established by a simple decision in the Ministry of Agriculture in 1991, approved the GMO. In contrast to the intellectual property protection in the US, RR technology was not patented in Argentina. Seeds are relatively cheap and under the national law farmers are allowed to use farm-saved seeds. Therefore, it is not surprising that the technology was rapidly adopted (Quam and Traxler 2005). The Argentine government, eager to pull the country out of a deep economic recession in the 1990s, restructured its economy around GM soy grown for export.

Argentina is now the world's third-largest soy producer and number one exporter of processed soy (oil, meal and biodiesel). Soy has become the country's most important export commodity, most of which goes to China and to feed livestock in Europe. Its strong market price globally enabled soy to rescue Argentina from the severe economic crisis that hit in 2001, and the crop continues to play an important part in the country's revenue. GM soy now makes up more than half the nation's crop production and a quarter of its exports.

Today, soy production is expanding more and more, even in the northern parts of Argentina, areas not long ago considered too dry and uneconomical to produce grains. But with the no-tilling planting methods[1] that keep erosion to a minimum, nutrient-adding seed treatments and genetically modified seeds, these dry areas can be cultivated. During the 2012/2013 agricultural season, soy was planted on 20 million hectares, over half of Argentina's cultivated land.

Different from other grain crops such as maize and wheat that are both for export and domestic consumption, soy is almost exclusively for export. Historically Argentina's main exports, beef and wheat, were also the primary consumption goods of urban workers. Because soybeans are not consumed by the working class, the government could both promote and tax export, generating fiscal revenues for social programmes while not harming the effective purchasing power of the urban workers or provoking a balance-of-payment crisis (Richardson 2009). Over the last few years, maize and wheat have been subject to export curbs to ensure affordable domestic food supplies, by keeping certain amounts of these crops in the country, immune to rising international prices. There are no such curbs on soy export, which contributes to steer farmers towards planting heavily taxed soybeans. The export tax on soy is 35 per cent.

Due to the fact that nearly all the GM soy is produced for export, Argentina has avoided the controversies related to human consumption that have taken place in other parts of the world, especially in Europe and parts of Asia. Until recently, an almost unreserved optimism has been associated with the expansion of GM production in Argentina. The public debate, strongly influenced by agribusiness companies, has to a large extent focused on the merits of biotechnology as an economic and developmental strategy. Since the government depends on soy exports to collect taxes and keep the economy alive, the problems associated with GMOs are not eagerly discussed politically. There has not been much debate about the impact of GMOs in the media either, and one can see why by reviewing the major newspapers, filled with ads from Monsanto and other multinationals. Newell (2009) argues that the desirability of the GMO-based growth strategy has been secured in material, institutional and discursive arenas of power, producing a particular expression of what he calls bio-hegemony.

Notwithstanding the advantages of soy production, plus the characteristic resilience and adaptability of the Argentine farmer, the current soy-heavy model is increasingly questioned regarding its socio-environmental sustainability (Teubal 2008). Critical voices draw the attention to land distribution. Concentration of land by certain business concerns, purchases of large parcels of land by urban and foreign investors, the displacement of small producers in some agricultural areas of the country and the extended practice of land leasing have led to changes in land distribution. According to Sili and Soumoulou (2011), the last few decades have seen the strongest concentration of land in the history of Argentina. Two per cent of the farms control 50 per cent of the country's land, while 57 per cent control 3 per cent of the land. This concentration is associated with a rapid shrinking of the small and medium-sized farming sector. These farmers do not have access to sufficient land to feed a family. Due to increasing

land prices, they are not in a position to compete with external investors. Moreover, many small peasants do not have formal property rights to land and are thus subjected to evictions. This does not happen without conflict and resistance, such as demonstrations and land occupations (Brent 2013).The medium to large-scale farmers who have property rights to land and the capacity to catch up technologically are consolidating and growing.

Perhaps the most important change is the growing importance of investors who participate in agricultural business through new forms of production management, especially the sowing pools. Initially the sowing pools consisted exclusively of agricultural producers who joined resources and efforts to increase scale. Gradually this changed. Today the sowing pools are characterised by the key role played by finance capital and the organisation of a transitional enterprise system that takes control of agricultural production, by leasing large tracts of land, and buying sowing, spraying, harvesting and transport services in order to generate economies of scale and high yields. At the end of the harvest, profits are distributed to the investors of the pool. The sowing pools play a key role in the production of soybeans in Argentina.

This concentration of land has coincided with the end of the expansion of the agricultural frontier. This implies stronger demand for land, and natural resources are becoming increasingly more strategic, generating more conflicts in rural areas. According to Sili and Soumoulou (2011, p. 11) Argentina is undergoing a transition from a rural development model with locally anchored small and medium producers to an agricultural development model dominated by business approach and a high degree of delocalisation. This is what has happened in Santa Fe province, to be discussed below.

Critical voices are also directed at the environmental impacts such as soil deterioration, the extermination of animals, insects and microorganisms. Soybeans tend to be cultivated in mono-cultures on the big farms, especially in the sowing pools. Over time, mono-cropping of soy leads to land erosion. Maize and wheat both leave substantially more organic material than the soy plant in the field after the grains are harvested. It is that regular influx of wheat chaff and maize stalks that keeps soils fertile. According to leading agronomists, the expansion of soy has produced an ecological imbalance in the distribution of crops. In 2013, Argentina had no more than 4.3 million hectares of maize compared to the 20.3 million hectares of soybeans (Bolsa de Comercio de Rosario 2014).

The expansion of soybeans is accompanied by high consumption of agrochemicals. In 2002, two years after the first big harvests of RR soy in the country, residents and doctors in soy-producing areas began reporting serious health effects from glyphosate spraying, including high rates of birth defects as well as infertility, stillbirths, miscarriages and cancers (Valente 2009). There was a call by President Cristina Kirchner to create a commission to investigate the health impact of agrochemicals in 2009, but its final recommendation was to promote further research because there was not enough data in Argentina on the effects of glyphosate on human health. The critical accounts are not denied

but rather attributed to farmers 'transgressing current norms' and not to the fact that agrochemicals are dangerous to humans (CONICET 2009).

The impact of the expansion of soy production varies according to the agrarian structure and social conditions before the 'GMO revolution'. In areas previously dominated by large cattle and grain farms, there has been a change in land use, switching from meat, maize and wheat production to soy without major changes in the structure of land ownership. In previous peasant areas, changes in land tenure and ownership have been more dramatic, especially in Santiago del Estero and Formosa, provinces that were not attractive for modern agricultural production until the introduction of GM crops and the no-tilling practices. The expansion of soy in these areas has led to a displacement of peasants through purchase or even coercive means and produced increased rural exodus. In what follows, I will explore the impact of the expansion of soy in the more well-off farmer areas previously characterised by modern mechanised family farms and vigorous rural communities.

The impact of the GMO revolution among farmers in Santa Fe province

The following is based on a case study in Santa Cecilia located in the northern part of Santa Fe province, where I have conducted longitudinal fieldwork initiated in the early 1970s.[2] This is what in Argentina is referred to as a 'colono' area, due to the immigrant origin of its farmers. The farmers are descendants of immigrants who arrived from Friuli (today Northern Italy) in the 1880s. Their settling in the Argentine pampa, an environment that was very different from the rural villages of their ancestors in the Alps, required new ways of organising economic and social life.

Since their settlement in the region, the 'colonos' have been part of a complex society which has undergone remarkable processes of change. Locally these changes are primarily associated with the introduction of industrial crops in the 1930s and the mechanisation of agriculture in the 1950s. The introduction of cotton, what used to be known as 'the white gold', initiated economic growth in the region. Before the introduction of cotton, production was exclusively based on family labour. The number of pickers needed for the cotton harvest exceeded what could be covered by the farmer family. Cotton pickers were recruited from other parts of the region and belonged to a different class and ethnic group.

The economic expansion of the 'colonos' accelerated with the introduction of tractors and other labour-saving technologies two decades later. Agricultural production gradually became entirely market oriented and mechanised. Machinery replaced animal traction and family in agriculture and generated labour surplus in rural areas, which led to massive rural exodus. In this region, rural–urban migration was associated with economic expansion in the urban areas, to a large extent absorbing the surplus labour from the farmer areas (Archetti and Stølen 1975).

When I carried out fieldwork in the late 1980s, a few years before the introduction of the GM soy, the area was characterised by lively and vigorous communities, where most or all farms were inhabited. In contrast to the extended family farms that still dominated in the early 1970s, most farms were organised in such a way that they could be run by two adults, a man who was responsible for the agriculture and a woman who took care of the home. Ideally they should constitute a nuclear family with three children, of whom at least one was a boy, who should secure the continuity of the farm, while the others were expected to pursue a future outside the farm. The older generation had moved to a more comfortable life in town, where most of their children and grandchildren had already settled.

Due to their integration into a growing capitalist market, the farmers had acquired a level of technology deriving from a high degree of social division of labour and a well-developed industry. The mechanisation of agriculture led to a dramatic increase in labour productivity and levels of investment on the farms at the same time as accelerating transfer of labour from agriculture to the industrial and service sector. Until the mid-1990s, the Santa Cecilia farmers were able to produce the surplus necessary to reproduce themselves as viable units within the wider economic context of capitalist growth. Thanks to the revitalisation and high level of activity and participation in the farmers' organisations after the difficult period of military dictatorship (1976–1983), they had managed to make a number of biotechnological advances, improving crop varieties and new farming techniques as well as better management practices, that were increasingly more based on scientific knowledge. When I finished my research in the late 1980s, my conclusion was that the 'colonos' were adapting to the increasingly more capitalist environment. I found no signs that the farmers would abandon their farms and community and their way of life in the near future (Stølen 1996, p. 146).

The end of the farmer community

When I started my fieldwork in Santa Cecilia in early 2012, I soon realised that my expectations had not come true. The abandonment of the community was striking. The fields were cultivated, but most farm houses were empty, some abandoned and literally falling down, others were maintained and used as weekend houses. Only a small number of farmers lived on their farms, most of them above 50 years old. The social life in the centre of the community had almost disappeared. The football field was overgrown, the two bars/grocery shops had closed, and the church was only used on special occasions, such as Easter and the annual fiesta of the local patron saint. The school was still functioning but there were only three farmers' children out of 90 pupils. In the late 1980s, farmers' children constituted the majority of the local school children. To what extent was this abandonment related to the 'GMO revolution'?

As in the other parts of Argentina, GM soy was first planted commercially in 1996, and it was received with open arms. The farmers knew about this new

crop because it had been planted on an experimental basis for a few years. The most attractive attribute of this new variety was the no-tilling practice and the biological cleaning of the fields, the fact that RR-resistant soy seeds could be distributed directly on stubble fields. Before the introduction of the RR soy, the fields had been cleaned mechanically, which implied endless hours on the tractor ploughing and harrowing, as well as considerable fuel costs. Since the GM seeds were not patented in Argentina, seed prices were relatively low and the seeds easily accessible. The farmers were offered advancement of input packages to be paid upon delivery of crops after the harvest. Moreover, export prices were high, as was the demand on the international market. In this area, soy in rotation with sunflower and maize permits the intensification of production from two to three crops in two years by shortening the fallow period between crops. Farmers tell that they were marvelled by the prospects of this new crop and had no second thoughts about its advantages.

Changes in land tenure and use

Changes in cultivation practices (especially the new practice of no-tilling) and new technologies, primarily biological but also mechanical, associated with the expansion of soybean production, require bigger land extensions and heavy investments for farms to be viable production units. A few farmers have managed to make this transition through particular growth strategies – among others, pooling resources (land/technology), renting additional land and/or combining agriculture with other income-generating rural activities, such as more industrialised chicken and/or cattle breeding (feed lots) to obtain a viable production unit. However, most farmers were not able to make this transition. The most important constraints have been their limited access to land and capital.

In spite of the fact that land has been a commodity ever since the arrival of the 'colonos', until recently most agricultural land used to circulate outside the market; most transfers took place through inheritance. Despite generally low mobility of the land market in this area, I observed already in the late 1980s considerable changes in the land tenure system, pushing forward the commoditisation of land. At that point, the new trend was the renting of land between family members. In contrast to what was common during my fieldwork in the 1970s, when old people remained on the farm upon retirement, old people had started to migrate to town to lead a more comfortable life close to their migrated sons and daughters. The old couple did not transfer the land to the next generation upon retirement. They rented out their land to the son who lived and worked on the farm and in this way they were able to make a living in town. This created new relations of dependency between fathers and sons, since the son had limited or no land of his own.

Legally, sons and daughters have equal rights to inherit their parents' land. However, historically this has not been practised. Those who remained on the farm inherited the land once the parents died, paying compensation for the land

to their siblings. In the 1980s, the amount of the compensation was still adapted to the prospects of income from the land, to secure the continuity of the farm.

This practice has changed. The value of the land to be inherited is now determined by market prices. With increasing land prices, partly due to the economic differentiation and prosperity among a few successful farmers and the investment in land by urban people, small and medium farmers are often no longer able to buy the land of their siblings. Without prospects to take over the farm in the future, young farmers prefer to migrate and find a job in town. Some of the migrants have decided to sell the land, including the farm houses. These are the less well-off migrants who need the money for their expenditures in town. Buyers are normally more prosperous farmers from the region, or urban investors, who expand their farms to become more viable in the new economic environment.

Those who can afford it keep the land in the family and rent it out, preferably to a neighbour. They say that if you own land you never lose, it represents a safe investment and land prices have always been increasing. However, other concerns than economic also seem to be at play here. These absentee landowners refer to the emotional attachment to the farm and the community, where they spent their childhood. They often maintain the farm house and the surroundings to visit during weekends. I believe that this emotional attachment is losing weight among the next generation, who have lived their whole or most of their lives in town and often find the countryside dead and boring, and prefer to spend the weekends in other places.

Those who remain in the community

We have seen that some people remain in the countryside, in spite of not being able to continue as independent farmers. They are people of age, whose children have migrated permanently. There are two categories: The first consists of retired couples above 60 who are willing to reduce their standard of living in order to remain in the countryside. They rent out land and live off the rent, in combination with a small pension or sale of local products, such as pork meat, vegetables or flowers. Some of them also own cattle.

The other category is composed of people who are some 20 years younger, but also with grown-up children, some of whom are still students. Their need for income is higher and so is the level of activity. They have survived by diversifying their activities – for example, cultivating own land and land rented from retired or migrated neighbours, combining with other activities such as cattle breeding on own or rented land, vegetable production and poultry breeding. One farmer also runs a mechanic workshop with his grown-up son, repairing machinery or even constructing hangars for storing machines, inputs and products. When these people get older, they will probably move to town to be closer to their offspring. None of their children seem to be interested in returning to live in the countryside. In this case, the level of abandonment will continue to increase.

The cooperative Unión Agrícola, of which most farmers are members, is strongly promoting new activities such as vegetable and flower production, chicken and pig breeding to diversify production and thereby enable the smaller farmers to make a living in the community. This might slow down the migration flow, but it is unlikely to result in a return from the town to the countryside. Economically the countryside is attractive, and its attractiveness may even increase for smaller producers in the future, but it is no longer seen as an attractive place to live due to the poor social life.

The passage from family farm to agribusiness

Very few farmers have succeeded in making the passage from family farms to agribusiness. The successful cases I have observed have managed through gaining access to land, pooling resources, primarily land and technology, diversifying production and working very hard.

The four Furlán brothers, who are in their late 30s and early 40s, represent an example of this. Several conditions have been on their side. The four brothers started at an early age to work with their father, all of them with the idea of becoming farmers. All of them have secondary education with a focus on agronomy and three of them have tertiary education in agronomy, farm management and agricultural economy, respectively. They belong to a family with what is seen as having an almost ideal gender composition, the four brothers and only one sister. By paying for their sister's university education and a nice flat in the town where she now lives with her family, her part of the inheritance is taken care of. Three of the brothers are married to working women with good incomes. The fourth is still single.

The brothers own 600 ha, half of which are apt for agriculture, the rest for cattle breeding. The first piece of this land (80 ha) the father inherited from his parents in 1972. The payment of compensation to his siblings was completed in three years. With hard work and the help of his sons, the father made three other purchases of land, all in the neighbourhood. One was purchased from a widow who had no sons to take over the farms and decided to move to town when her husband died. The other was purchased from the heirs of a big cattle farmer who were not interested in continuing farming. A third piece was purchased from a neighbour who went bankrupt.

When the father died a few years ago, he had already transferred the land to the sons. They have individual deeds, but pool their land resources, make common investment in machinery and work together, dividing responsibilities according to their competences. All the investments in land have been made without credit, a combination of savings and instalments over two to three years. Due to periods of high inflation with devastating consequences for many farmers with credits in the past, they are reluctant towards credits. They only use credits obtained through their cooperative, which are considered safe, but such credits are scarce. These credits have been used to buy machinery. Otherwise the brothers work with cash flow. They buy inputs in cash and get a

discount. Poorer farmers who lack cash pay a higher price and a 1.5 per cent interest rate on advances needed to obtain the inputs.

The 600 ha owned by the brothers are far from enough for them to become successful modern farmers. In addition, they rent 1200 ha from nine different owners, three of them as far away as the neighbouring province of Chaco. Three of the owners are urban investors, one medical doctor and owner of a clinic, and two lawyers. Two owners, who have retired from agriculture due to old age, keep some cattle and rent out their agricultural land to the brothers. Two other owners went bankrupt, failing to pay back credits. They cannot afford to finance the necessary inputs and rent out their land. The last two owners are close female kin. None of the owners has sons who are interested in becoming farmers.

The conditions of rent are varying. The most common is paying a percentage, normally 20 per cent of harvested products. In four of the cases, the retired and the two bankrupt farmers, they pay a fixed amount in monthly instalments. These owners prefer to have a safe income rather than choosing a potentially more lucrative, but also more risky arrangement.

The incomes earned from agriculture have been used to invest in machinery beyond what they need for their own production. They sell services to other farmers who are not in a position to purchase their own machinery. In 2013, the brothers started the construction of a chicken plant with a capacity of breeding 80,000 chicken five times a year. Part of the investment was made with income from agriculture. In addition, the cooperative offered advancement of input packages to be paid upon delivery of the chickens. The brothers also have cattle in their pasture land.

The brothers are relatively well off; they expand and invest the savings from agriculture. They would have liked to own more land, but so far this has not been possible due to the excessive land prices. 'Today the value of land is not determined by what we can produce, it has become an object of speculation', they claim. We have seen that farmers who have retired or do not have the means to continue production prefer to rent out instead of selling. When there is land for sale, farmers like the Furlán brothers often cannot afford to pay the price urban people are willing to pay to obtain a safe investment.

Environmental impacts

In my area of study, I have not registered erosion and land degradation as a consequence of mono-cropping as reported from other parts of Argentina, dominated by sowing pools and other business firms. I suggest that this has to do with the socio-economic conditions previous to the GMO expansion. The farmers have a deep knowledge of their land and are well acquainted with the disadvantages of mono-cropping. They cultivate GM soy in rotation with sunflower and maize, sorghum or wheat (in that order). The same happens with the land they rent, normally from neighbours and/or acquaintances to whom they feel a moral obligation not to destroy their land. Nevertheless, they are worried about certain signs of weed resistance to glyphosate and the need to intensify the application of herbicides.

Based on conversations with local people, farmers and non-farmers, I have not registered negative health impacts of the use of agrochemicals. Even though the farmers do not seem to be worrying much about the use of *veneno* (poison), the label used locally, they are generally careful with its use. In contrast to what is reported from other parts of Argentina where application of agrochemicals is made by planes conducted by people with no connections to local life, application in this area is normally made by the equipment connected to the tractor, close to the ground. Application of *veneno* has a long tradition in the area and the farmers as well as their tractor drivers, most of whom are living close to the cultivated land, seem to be both careful and clever in keeping the agrochemicals in place. I have observed a number of fields without seeing any damaged vegetation in the adjacent areas. Those who use agrochemicals also use protective equipment in order to protect themselves against health damage caused by agrochemicals.

Poverty and inequality

Until the introduction of GM soy, cotton had been the dominant crop in this region. Cotton was cultivated in rotation with sunflower and conventional soy, the latter introduced gradually from the early 1980s, as part of government policy to promote soy as an alternative to meat in the national diet. All agricultural work, except late cotton weeding and picking, was mechanised. Cotton picking required extra hands, supplied by a large number of cotton pickers, most of them migrant workers, living in provisory shacks on the farms for three or four months during the harvest. The work was carried out on piecework basis by individuals or family groups. Children of all ages would work alongside their parents and were considered to be the best-suited for picking, since the plants were less than one metre high.

The workers were 'criollos', which is synonymous with an indigenous person with a portion of Spanish blood. The 'criollo' has a Spanish surname, and dark hair and skin. The 'colonos' are locally referred to as 'gringos', which is synonymous with foreigners, in this case, descendants of Friulian immigrants, with an Italian or Slav surname and lighter skin. No 'gringo' would work as a cotton picker.

The introduction of GM soy led to a dramatic reduction in labour demand, which in turn created unemployment and increased poverty among rural labourers. Soy replaced cotton, which implied that the most important source of unqualified rural employment disappeared. Moreover, the no-tilling practice associated with GM production reduced the demand for qualified labour, such as tractor drivers.

We have seen that most farmers moved to town while renting out their land or commuting to do their agricultural work in the community. The majority of people presently living in Santa Cecilia are previous cotton pickers and their families. During the last years of the 'cotton era', 40 cotton picker families organised and obtained financial support to build a neighbourhood of serial houses in the centre of the community to improve their precarious housing

conditions. Each family was offered a land plot, building materials and technical assistance to build a two-bedroom house surrounded by a small garden to grow fruits and vegetables and keep a few hens.

A few years after the housing project was finalised, the farmers stopped producing cotton and the main local source of labour disappeared. Migration to town was not an attractive alternative: first, because the demand for the unskilled labour they represented was limited and, second, because they were reluctant to leave their new homes. For most of them, this was the first time in their lives that they had acquired a decent house.

Due to lack of resources to initiate economic activities, but also lack of motivation to engage in some income-generating projects open to them, these people continue in poverty, in spite of receiving funds from social programmes that keep most of them above the poverty line.

Conclusion

There seems to be a general agreement that, in terms of economic growth, the Argentine soy expansion has been successful. Regarding the socio-environmental impact, opinions are more divided and less positive. It has been documented that the soy expansion has led to increased inequality due to concentration of land, increased migration and even displacement in some areas. It has also led to soil deterioration and health hazards. However, the impact varies from one region to another depending on previous conditions.

In the farmer areas covered by my study, the social impact, expressed in accelerated rural exodus, is the most striking. Small and medium farmers did not have access to sufficient land and capital to make the transition to agribusiness. They have retired from agriculture, rented out their land and moved to town. The few who have managed to make the transition have pooled resources, rented additional land and diversified production. Albeit these producers also have moved from the rural communities, they have a local connection, they are concerned about the sustainability of production, rotating crops to avoid erosion and being careful with glyphosate application not to damage people and the environment. Soy expansion in this area has been a success in terms of increased production and productivity; all the land is used and produces more efficiently, but the farmer communities are disappearing. Not only the economic changes referred to above, but also the fact that the 'criollos', who the 'gringos' consider their inferiors, now constitute the majority, which makes Santa Cecilia less attractive for the 'gringos' and also motivates their exodus.

Notes

1 No-tilling is when the seeds are planted directly into the stubble field, without previous ploughing.

2 Fieldwork was carried out in 1973/1974 and 1988. In 2012, I started the present research project conducting short-term fieldwork over a three-year period. I have received financial support from the Norwegian Research Council for all the fieldwork.

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12 The paradoxes of Chilean economic development

Growth, inequality, deindustrialisation and sustainability risks

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Chile has been portrayed as a showcase of sound economic management, rapid growth, macroeconomic stability, export-orientation and liberal rules for foreign direct investment. The strategy of economic development followed by Chile in the last three decades or so has relied on neoliberal principles of privatisation, marketisation and deregulation extended both to productive sectors and to social sectors. The main yardstick to judge economic development has been the level of GDP per capita as the 'magic blueprint' to achieve national prosperity and material welfare. In some respects, this has succeeded as the GDP per capita reached close to US$19,000, in purchasing power parity, one of the highest of the Latin American region. Moreover, since 2009, the country has been a member of the Organization for Economic Co-operation and Development (OECD), the club formed mainly by the rich economies of the world.

Chile is considered the remaining bulwark of neoliberal economics within the Latin American region, distancing itself from the policies of other countries of the region that seek greater economic autonomy from foreign multinational corporations and hegemonic super-powers, through regional integration and resource nationalism (see Bull, Chapter 9 in this volume).

Chilean economic growth relies on the dynamism of exports, private investment and private consumption. Exports are intensive in natural resources (mainly copper) but the share in total exports of other primary products such as fishmeal and forestry has been declining along with the importance of manufacturing exports. In turn, after decades of neoliberal policies and in spite of a rising GDP trajectory, the country has been undergoing a steady process of deindustrialisation. In fact, the share of manufacturing in GDP reached a historical low of 10 per cent in 2012, a level resembling that of the early 1940s. In contrast, in 1970, manufacturing was 17 per cent of GDP (Sanhueza *et al.* 2013).

Social indicators show a mix of declining poverty along with persistent inequality of income and a high level of concentration of wealth ownership in tiny but powerful economic elites. The Gini coefficient for monetary incomes (adjusting for transfers) has moved within a range of 52 and 56 per cent in the last two decades (and before), a level that places the country among the top 15 most unequal countries in the world (Solimano 2012). In turn, the income share of the richest 1 per cent of the population captures nearly 33 per cent of

national income, also a very high number by international standards, as discussed below.

Thus, the Chilean growth model has been highly unbalanced, favouring the rapid growth of natural resource-intensive and environment-degrading industries to the detriment of knowledge and high-skill intensive sectors. Although poverty has declined, inequality in the distribution of income and wealth has remained among the highest in the world and growth has come at a high cost for the environment, particularly air and water pollution. Large amounts of SOx and arsenic emissions are generated by the mining sector, with serious health impacts on the population. Being an energy-intensive activity, mining is also particularly pressed by energy scarcity, as the country happens to be highly dependent on fossil fuel imports. In addition, water demand exceeds supply in the northern and central parts of the country, where most of the water-intensive mining and agriculture activities take place, and surrounding communities often lack sufficient water supply for their consumption, leading to some rationing in its use. Taxes have been too low to cover externalities created through local air, land and water pollution, and fossil fuels are not priced in line with their carbon content and local externalities. The large number of industries that intensively use or extract natural resources (aquaculture, fisheries, forestry, etc.) and/or are environmentally dirty (pulp and paper, chemicals, steel, copper, etc.) are mostly exempt from paying royalties and/or environmental taxes (with the exception of a specific tax on mining established in 2005).

In this context, investments in natural resources and environment-intensive sectors have remained very attractive, thanks to the large natural resource rents. In fact, according to OECD (2013b), natural resource rents (difference between profits and the opportunity cost of capital) accruing to private and public companies are high in Chile, reaching around 19 per cent of GDP over the period 2008–2012. Moreover, taxes are much lower than in other resource-rich countries. In terms of the structure of the economy, the fact that producers using natural resources and exhausting the environment are not required to pay for this relevant factor of production entails an implicit benefit compared to sectors that are not resource-dependent and are environmentally clean, such as high-tech, knowledge-based and human capital-intensive activities, which have to pay market prices for all their inputs.

The Chilean growth model appears in sharp contrast with the nature of economic growth in most OECD countries, characterised by an increasing share of high-skills and technology-intensive activities in GDP. In fact, at the global level, and given increasing environmental problems and a growing population with rising demands, the nature of economic growth in the coming decades should be fundamentally different in order to be deemed sustainable. However, for a resource-rich country like Chile, rising commodity prices as well as the threat of being inflicted with a 'Dutch disease', making manufactured goods as well as tradable services less competitive by raising the value of the currency, do not facilitate a transition away from a natural resource-intensive economy.

The purpose of this chapter is to examine the main features of the Chilean development model of the last three decades regarding growth, distribution, the nature of the productive structure, reliance on natural resources and energy use and environmental impacts. The chapter assesses the sustainability of main trends in economic, social, resource and energy developments over time and highlights the structural imbalances generated by the neoliberal model imposed during the military regime of the 1970s and 1980s and continued by post-authoritarian administrations since 1990. Finally, the chapter identifies areas of reform for redressing current trends and building a more equitable and socially cohesive society along with maintaining growth that is more friendly to the environment and respectful of its natural resource base and the welfare of present and future generations.

Growth, poverty and inequality

Economic growth has accelerated in Chile since the mid to late 1980s compared to its historical record of the period 1940–1985, during which the average annual rate of growth of GDP was 3.1 per cent (1.2 per cent in per capita terms). In contrast, the rate of growth of GDP in the period 1990–2012 was 5.2 per cent (close to 3.5 per cent per capita). This has allowed a transition from an economy with a per capita income of around US$5,000 in the late 1980s to near US$19,000 today. Nevertheless, as we shall see, the fruits of that growth have concentrated, largely, on top income earners and the growth path has been quite uneven during the last two and a half decades. In the 1990s, the economy grew, on average, nearly 2 per cent faster than in the period of 2000–2012, although in the last four years, a recovery of growth has taken place in the period 2010–2013, albeit, again, some recent cyclical growth deceleration is underway (early 2014) (Solimano 2012).

The social consequences of the growth process as measured by poverty and inequality are shown in Figure 12.1. Two results stand out for visual scrutiny: First, along with rising GDP, we observe a decline in poverty from 38 per cent in 1990 to 14 per cent in 2011. Second, it is also noticeable that, while GDP grows and poverty declines, inequality remains at a high level, with the income Gini index in the range 0.56–0.52 between the early 1990s to present. This is an important result and suggests that economic growth per se did not lead to a closing of the gaps between top and bottom income earners or between other income segments.

In turn, a feature of the income distribution of Chile is its concentration at the top of the income scale. Using data on tax compliance prepared by Chile's Internal Revenue Service, Lopez *et al*. (2012) calculate that the income share of the top 1 per cent in the period 2005–2010 was 32 per cent, the income share of the top 0.1 per cent (one-thousandth of the population) was 19.9 per cent and the share of the top 0.01 per cent was 11.5 per cent.[2] These numbers are certainly very high by global standards. In fact, they are above the top income shares of high-inequality OECD countries such as the USA and the UK. In 2007, in the USA, the income

share of the top 1 per cent was 23 per cent, in the UK it was 14 per cent (in France, that share is 8 per cent), using income data from their respective Internal Revenue Services (Atkinson *et al.* 2011; Solimano 2014).

In the graphical terms of Gini coefficient analysis, in Table 12.1 below, the numbers for Chile show an extremely sharp departure of the Lorenz curve to the right from the proportional equality 45 degree line.[3] These results, in turn, provide strong empirical evidence backing the assertion that income inequality in Chile is closely connected with a very high appropriation of income at the very top of the distribution rather than with dire poverty at the bottom.

The income data can be complemented by international rankings of wealth ownership such as the 'billionaires list' prepared by the US-based magazine *Forbes* (2014), which compiles annual data on individuals or families holding net assets over US$1 billion. In this respect, Chile had, in 2013, 12 families (Luksic, Matte, Paulman, Piñera among them) in the Forbes list of billionaires, in a country of 17.3 million people, with a combined wealth that amounts to over 15 per cent of the GDP.

Does social policy compensate for high inequality?

In the 1980s, under the Pinochet regime, Chile moved to 'market-based' social policies, a trend that was praised by the International Financial Institutions of Washington DC at that time. This orientation of the social policies was

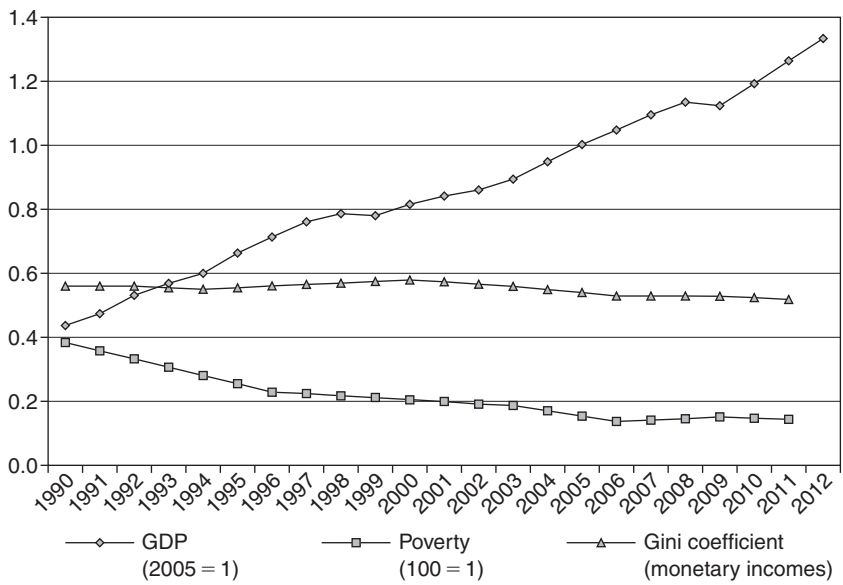

Figure 12.1 Chile: growth, poverty and inequality (1990–2012) (source: own elaboration based on data from the World Bank and Ministry of Social Development of Chile).

Table 12.1 Chile: growth, poverty and inequality (1990–2012)

Year	*(1) GDP (rate of change, annual per cent)*	*(2) GDP (2005 = 1)*	*(3) Poverty (100 = 1)*	*Gini coefficient*	
				(4a) Primary income (before taxes and transfers)	*(4b) Monetary income (adjusted by taxes and subsidies)*
1990	3.70	0.44	0.38	0.57	0.56
1991	7.97	0.47			
1992	12.28	0.53		0.56	0.56
1993	6.99	0.57			
1994	5.71	0.60		0.57	0.55
1995	10.63	0.66			
1996	7.41	0.71	0.23	0.57	0.56
1997	6.61	0.76			
1998	3.23	0.78		0.58	0.57
1999	–0.76	0.78			
2000	4.50	0.81	0.21	0.58	0.58
2001	3.35	0.84			
2002	2.17	0.86			
2003	3.96	0.89	0.19	0.57	0.56
2004	6.04	0.95			
2005	5.56	1.00			
2006	4.59	1.05	0.14	0.54	0.53
2007	4.60	1.09			
2008	3.66	1.13			
2009	–1.04	1.12	0.15	0.55	0.53
2010	6.10	1.19			
2011	5.99	1.26	0.14	0.54	0.52
2012	5.60	1.33			
Average					
1990–2000	6.20	0.65	0.27	0.57	0.56
2001–2011	4.09	1.04	0.15	0.55	0.54
1990–2011	5.15	0.84	0.21	0.56	0.55

Source: own elaboration based on data from the World Development Indicators (WDI) and Ministry of Social Development of Chile.

preserved, albeit with some modifications, by the centre-left governments and centre-right (the so-called political duopoly) that came to government after the end of the military regime in early 1990. Market-oriented social policies promoted the participation of the private sector in education, health and the pension system, in the delivery of social services and in shifting the cost of these services to beneficiaries, reducing their financial burden on the state. In the education sector, the state largely withdrew from its traditional role as a main funder of schools and universities. As a result of this change in the policy paradigm, and according to the OECD and the World Bank, Chilean families pay, relative to their budget, the highest proportion in the education of their children (near 28 per cent) compared with the rest of OECD economies (Solimano 2012). It is apparent that in this system richer families can afford to educate their children in better and more expensive educational facilities (primary, secondary and tertiary) than the middle class and the poor. In the largely privatised system, access to education depends on the position of the student and his or her family in the income scale, affecting the socio-economic equalising role education is generally supposed to play in society. To allow middle-income and lower-income families to enter the expensive university system (with a growing importance of private universities along with the shift of funding of public universities from the state to the students) required a massive system of education loans for higher education to be put in place by the government and administered by commercial banks with the predictable result of making students acquire significant levels of debt to finance their education.[4] A less recognised but equally important implicit objective of promoting indebtedness among students was the hope by the dominant elites to appease their critical attitudes and resistance to the privatised education system, although it has operated the opposite way, as seen in the student's movement of 2011 with the motto of 'quality and free education for all'.

The health sector comprises a two-tier system. Over 80 per cent of the population uses the public health system that tends to be undercapitalised and has long waiting periods, while the upper middle class and the rich go to a system of good quality but expensive private clinics (Solimano 2012).

Regarding social security, Chile was a pioneer in privatising the pension system for the civilian population. The new scheme is based on a private capitalisation pension system (called the *Administradoras de Fondos de Pensiones*, AFP) in which nearly eight million people hold individual pension savings accounts managed by only six private companies. To protect the private monopoly of pension management, the state is barred, by law, to offer pension fund management services to the population. The system is highly profitable for the six managing companies. In addition, it provides a huge source of funding, at a low cost, to large corporations and banks both in Chile and abroad. It is estimated that US$44 billion of workers' pension funds were invested by the AFP system in the top ten banks and ten corporations. In addition, the AFP have invested around US$50 billion abroad to acquire foreign securities and bonds, while the total resources of the private capitalisation system is around US$170

billion. The other side of the coin in this big dance of funds, which have generally been invested at good returns, is that the retirees of the system (mostly low- to middle-income contributors) receive *meagre pensions* and that the state has to bill an important share of the basic pension segment. In fact, the replacement rates (ratio of pension to last salaries) are between 40 to 50 per cent, while the average of the OECD is nearer 75 per cent (OECD 2013a). Interestingly, the only segment/section/part of the population that is enrolled in a publicly managed pension system (receiving permanent contributions from both the state and the beneficiary) is the armed forces, which enjoy much higher pensions (and better hospitals) than the civilian population under the privatised system. Tellingly, in 1981, the armed forces refused to enter into the new AFP private pension capitalisation system put in place by economic advisers of the military regime of Augusto Pinochet. Also a small fraction of the population remained in what was left of the old pay-as-you-go system and has consistently received higher pensions than those that moved into the private capitalisation scheme.

Let us take a look at the level of public spending in Chile. Public spending in education reached 3.2 per cent of GDP and health 3.7 per cent (average 2006–2012; see Figure 12.2). In turn, defence spending was 2.3 per cent of GDP in the period 2006–2012.These numbers are modest when compared with the levels of public spending in education and health of other countries, irrespective of GDP per capita levels. In fact, as displayed in Figure 12.2, Chile's levels of public spending in the two social sectors is *below* (as a share of GDP) the corresponding average level in Latin America and the OECD. Furthermore, Chile's levels of public spending in *defence* relative to GDP (including military equipment, salaries and pensions of army personnel) is *higher* than in Argentina, Mexico, Brazil and Uruguay and

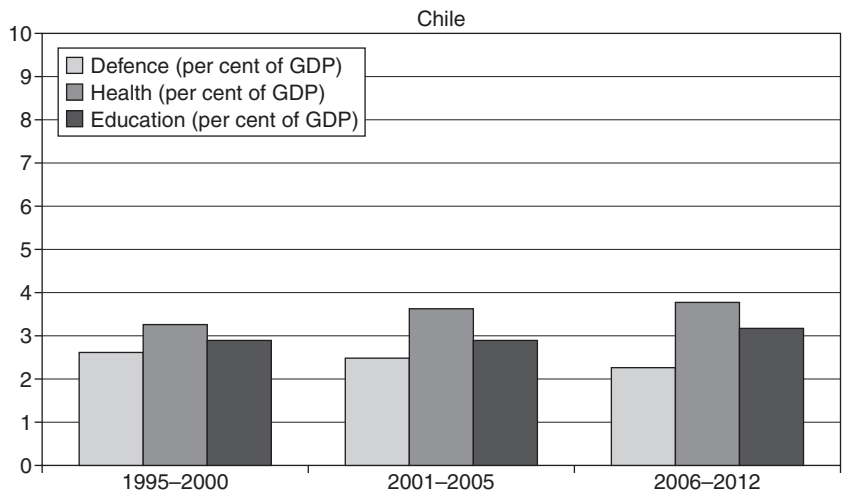

Figure 12.2 Chile: public spending in education, health and defence (per cent of GDP, 1995–2012) (source: own elaboration based on data from World Bank).

also higher than the average of the OECD (see Figures 12.3 and 12.4).[5] The reason for this high level of defence spending in Chile is probably related to the fact that the armed forces, by law and without the same parliamentary scrutiny of civilian public budget, receive 10 per cent of the gross income of CODELCO (*Corporación del Cobre*), the main state-owned copper-producing company in the country. In recent years, international copper prices have been very high.

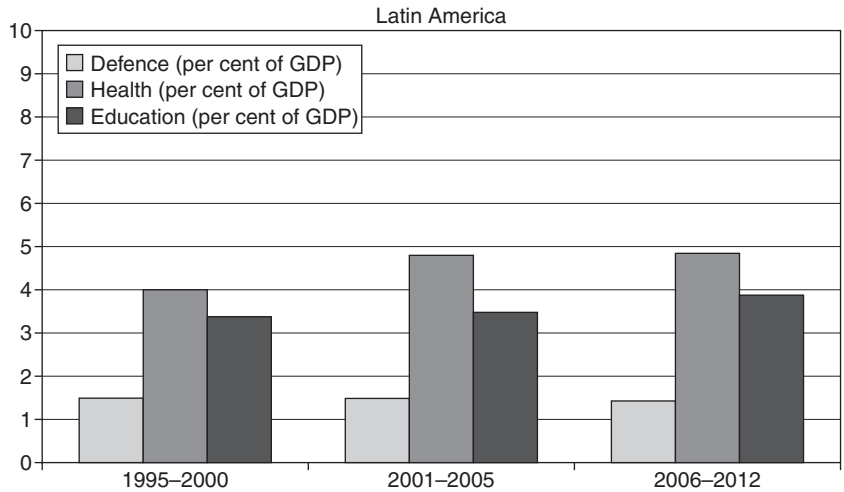

Figure 12.3 Latin America: public spending in education, health and defence (per cent of GDP, 1995–2012) (source: own elaboration based on data from the World Bank).

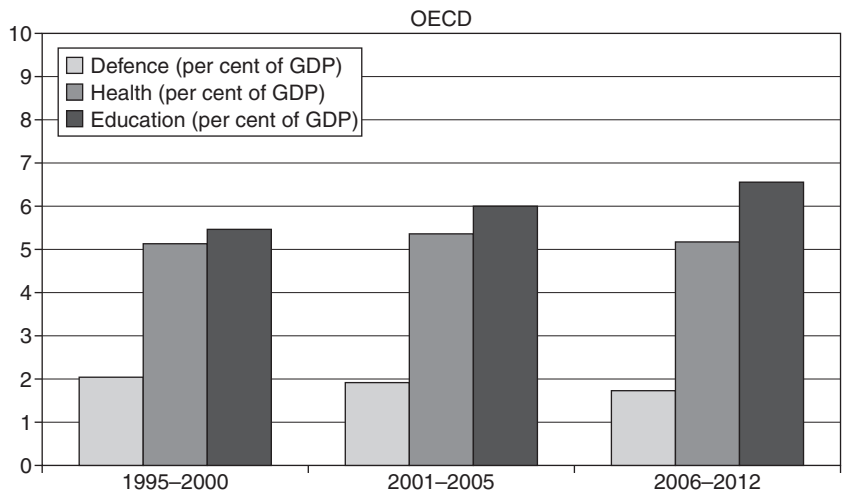

Figure 12.4 OECD: public spending in education, health and defence (per cent of GDP, 1995–2012) (source: own elaboration based on data from the World Bank).

The composition of Chilean GDP: the deindustrialisation process

As already mentioned, the development strategy of Chile has given high priority to increasing the aggregate GDP. Nevertheless, important issues of composition have been largely neglected, such as the importance of the mining sector in GDP and in exports and the fact that the share of the manufacturing sector has been declining in the last three to four decades.

Of special significance is the *declining importance* of the manufacturing sector in the Chilean economic structure, a steady process of *deindustrialisation* noticeable since the 1970s. The paradoxical result is that, while GDP has been in a steady, medium term, upward trend, albeit punctuated by some large contractions in economic activity in 1975, 1982–1983 and milder ones in 1999 and 2009, the share of manufacturing has been in an overall declining trend. In fact, by 2012 the share of manufacturing reached a historical low of 10 per cent, a level similar to that registered some 70 years ago in 1940s. The peak was 17 per cent in 1970 (Sanhueza *et al*. 2013).

This is a worrisome trend for various reasons: manufacturing is the sector *per excellence*, where technological change and innovation takes place. In addition, the good jobs, the development of local skills, engineering capacities and other forms of added value often develop in manufacturing. Historically, virtually all countries that have developed and enjoy high per capita incomes and superior living standards have passed through a phase of industrialisation; albeit this trend has been partially reversed since the 1970s in advanced economies of North America and Europe, due to the rise of low-wage manufacturing in Asia, mainly China. The new productive platform of low-wage nations induced outsourcing and redeployment of operations by western multinationals to these countries with adverse consequences for output and employment generation in the manufacturing sector of advanced capitalist countries and developing countries with mid-level to high-level wages.

It is interesting to note that, as of 2012, the average share of the manufacturing sector in GDP in developing countries (16 per cent) is *higher* than the corresponding share for developed capitalist economies (13.6 per cent), confirming the trend just discussed. In turn, as shown in Figure 12.5, among developed countries Germany, Japan, Finland and the USA have a share of manufacturing that stand above the average share of developed countries. In the developing world, most of the rapid growth of manufacturing, as said before, has concentrated in Asia, in countries such as China, Korea, Taiwan, Singapore and others (see Baldwin 2012).

The composition of exports

The strong reliance on natural resources of the economic structure is best portrayed in the composition of exports. The dominance of mining in the export bundle is clear. As shown in Table 12.2, the share of mining exports in total

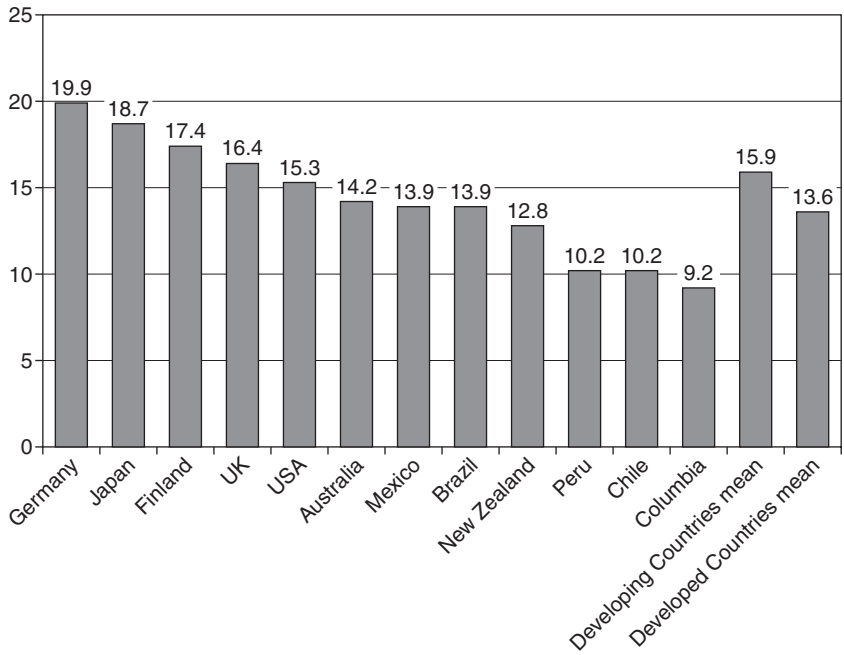

Figure 12.5 Manufacturing sector's contribution to GDP, selected countries in 2012 (per cent) (source: own elaboration based on data from Sanhueza *et al.* 2013)

exports is 63 per cent (2011), with the bulk of it corresponding to copper. The share of exports of other primary products such as agriculture, forestry and fish is small, close to 6 per cent, and has been declining during the last 10 to 15 years. Another sector that has been experiencing decline is manufacturing, down from near 30 per cent of total exports in the mid to late 1990s to less than 20 per cent in 2006–2011. These trends in exports are worrisome if we want to revert the deindustrialisation process, increase their intensity in value-added and reduce the dependence of the economy to often volatile international commodity prices.

The sustainability risks

The Chilean growth model has been highly unbalanced, favouring the rapid growth of natural resource-intensive and environment-degrading industries, which has come at a high cost for the environment, particularly air and water pollution. So long as cheap and abundant natural resources provided the basis for economic growth and environmental considerations played a minor role, development strategies could afford to neglect environmental considerations. This is no longer the case for the twenty-first century and, in order to be considered sustainable, growth strategies should respect the natural limits of environmental resources on which countries rely.

Table 12.2 Export by sector (%)

Year	*(1) Export of goods*			
	(1a) Mining	*(1b) Agriculture, forestry and fisheries*	*(1c) Manufacturing*	*(2) Others*
1996	45.8	9.8	29.3	15.0
1997	46.6	9.3	28.9	15.1
1998	41.6	10.8	30.7	17.0
1999	43.0	10.0	31.1	16.0
2000	45.1	8.7	31.1	15.0
2001	42.6	9.4	31.8	16.3
2002	41.5	9.7	33.2	15.5
2003	43.0	9.7	31.3	16.0
2004	54.2	7.1	25.7	13.0
2005	58.3	5.9	22.5	13.2
2006	64.9	4.6	18.7	11.8
2007	65.9	4.6	18.4	11.0
2008	59.8	5.9	21.0	13.3
2009	59.7	6.6	21.1	12.6
2010	65.0	6.0	17.8	11.3
2011	62.8	5.9	19.3	12.0
Average				
1996–2000	44.4	9.7	30.2	15.6
2001–2005	47.9	8.4	28.9	14.8
2006–2011	63.0	5.6	19.4	12.0

Source: own elaboration based on data from Central Bank of Chile 2013.

As described in previous sections, Chile has experienced a rapid export-led economic growth, which resulted in significant reductions in poverty but also put considerable pressure on natural resources and the environment. Therefore, environmental conditions in Chile should be understood not only as a consequence of its fast pace of development but mainly in the context of a development strategy favouring the rapid expansion of natural resource and pollution-intensive industries.

The increasing share of mining in the economy is a case in point, with important implications for sustainable development, as it is considered to be particularly environmentally and socially sensitive. The copper industry not only competes for energy and water with other industries and surrounding populations, but it is also responsible for large amounts of SOx and arsenic emissions. As previously mentioned, copper mining is a major contributor to Chile's GDP, but it requires large volumes of water, thus creating contentions between domestic uses for water and the need to meet export demands of copper and fruit products, such as grapes, apples, oranges, kiwis and others, which are relevant in total agricultural exports. Water demand exceeds supply in the northern and central parts of the country, where most of the water-intensive mining and agriculture activities take place, and surrounding communities often lack

sufficient water supply for their consumption, leading to some rationing in its use. Copper is also a particularly energy-intensive activity, in a country relying mostly on fossil fuel imports.

During the 1980s, the mining code and the water code was changed to attract foreign investment, a policy that contributed to give away natural resource rents and promote traditional sectors to the detriment of knowledge and human capital-intensive sectors. One of these changes, Decree Law 600, stimulated large foreign investments[6] and allowed companies to obtain water rights. In forestry, and to promote exports, a piece of legislation was introduced (Decree Law 701) which subsidised around two thirds of forest company costs, encouraging companies to substitute native forests with pine and eucalyptus plantations. As a result of these policies, forestry is one of Chile's most rapidly growing economic sectors, only second in export value after mining. Similar policies to encourage increased exports and fuel economic growth were implemented for the aquaculture and agricultural sectors, and given the lack of environmental concerns, even less so for environmental taxes, this led to high pressures on the environment (see Larraín 2000).

In this context, investments in natural resources and environment-intensive sectors have remained very attractive, thanks to the large natural resource rents. In fact, according to OECD (2013b), natural resource rents (difference between profits and the opportunity cost of capital) accruing to private and public companies are high in Chile, reaching around 19 per cent of GDP over the period 2008–2012. Moreover, taxes are much lower than in other resource-rich countries.

In fact, taxes have been too low to cover externalities created through local air, land and water pollution, and fossil fuels are not priced in line with their carbon content and local externalities. The large number of industries that intensively use or extract natural resources (mining, aquaculture, fisheries, forestry, etc.) and/or are environmentally dirty (pulp and paper, chemicals, steel, copper, etc.) are mostly exempt from paying royalties and/or environmental taxes.

According to Lopez and Figueroa (2011), the absence of royalties for the use of natural resources (with the exception of a specific tax on mining established in 2005), and the lack of environmental taxes targeting the most environmentally harmful activities, has important consequences in terms of economic structure.

First of all, it constitutes an implicit transfer of wealth from the average citizen paying for most of the pollution costs (air, water, health) to large companies that have access to the natural resources and use of the environment for free. This not only prevents the government from raising taxes for funding other urgent development needs (such as education and health), but it also keeps returns to physical capital in natural resource and environment-intensive activities artificially high relative to human capital. This implies not only an incentive to environmental degradation, but also a negative incentive to investing in human capital, perpetuating both low returns to human capital and high social inequality.

Second, the fact that natural resource-dependent activities enjoy free access to environmental inputs, or only pay partially for environmental damages, entails an implicit discrimination against other emerging activities, such as knowledge-based and human capital-intensive sectors that are not environment dependent, but have to pay market prices for all their inputs.

Thus, a policy of taxing polluters and natural resource rents would not only increase government resources, but it would also raise the relative advantage of emerging high-tech and knowledge-intensive activities, which may have important positive spillovers and externalities on the economy, the society and the environment.

It is quite evident in the Chilean case that the artificial incentives that the environmentally sensitive industries enjoy allows them to pay higher wages to high-skilled workforce than what knowledge-intensive emerging industries can afford. This makes it even more difficult for non-traditional sectors with more linkages to the overall economy to emerge.

In addition, the bonanza of high commodity prices and the related exchange rate appreciation tends to reinforce this tendency, breeding a certain degree of complacency and discouraging innovation as well, becoming an additional factor that contributes to crowding out knowledge-intensive and clean sectors.

Up to now, mining has been a highly profitable activity measured by private rates of return. However, social costs, in terms of depletion of natural resources and environmental degradation are higher than private costs for companies and, thus, social profitability is bound to be lower than private profitability. However, the considerable profit potential for private investors in accelerated mineral development of the country seems to be increasingly threatened by the high cost of energy, the water scarcity, the rights of indigenous people and the willingness of the civil society to tolerate the environmental and health impacts of this kind of development. Being an energy and water-intensive activity, mining also competes with other industries and the needs of populations for their supply, leading to frequent water shortages for them (OECD 2013b).

Guaranteeing sustainable mining, implementing a modern industrial policy and adequate taxes to ensure that natural resource rents are invested into new dynamic and clean productive assets, as well as putting in place royalty schemes to raise funds for science, technology and innovation, are highly desirable strategies that would contribute to the diversification of the economy and to sustainable development objectives.

Although factors such as the country's accession to the OECD, higher public expectations, international pressures and local environmental awareness are leading to important changes in Chile's environmental institutions, managing the present bonanza of high commodity prices and channelling the increasing available resources towards the investments needed to diversify and green the economic structure will remain a serious challenge for public policy.

Concluding remarks

The Chilean development strategy of the last three to four decades has given priority to aggregate economic growth, to orthodox macroeconomic management and to providing exceptionally good commercial conditions to foreign direct investment and domestic big business. Growth and macroeconomic indicators show the numbers of a strong economy but once social reality and sustainability considerations are properly considered, a more nuanced evaluation of Chilean economic development emerges. Along with rapid aggregate GDP growth, we observe a tendency towards steady deindustrialisation, with the share of industry in GDP reaching a historically low 10 per cent and well below current international standards of countries of comparable development levels. Moreover, this growth is reliant on mining and services as the main sources of expansion of economic activity. Social indicators also display paradoxes: while income-based poverty has been steadily declining since the early 1990s, inequality remains stubborn at a high plateau and income and wealth are heavily concentrated at the very top of the distribution. In addition, the strong reliance on copper leads to high use of water in short supply and has given rise to enclave activities with low backward and forward linkages to the rest of the economy. Moreover, the privatisation of water rights and mining rights is a permanent source of controversy in Chilean society.

A more balanced development strategy for Chile would require significant changes in its production structure away from an intensive use of natural resources and more towards knowledge-intensive sectors and clean production lines helped by a more environmentally conscious tax system. In turn, the reduction of high inequality and deconcentration of wealth would need important reforms in the tax system and the structure of markets, effective antitrust legislation and the rebalancing of bargaining capacities between labour and capital to allow for a fairer distribution of the productive gains and the enormous economic surplus currently appropriated by very small, wealthy elites.

Notes

1 Comments by Ulrikke Wethal and Arve Hansen are appreciated. Effective research assistance by Fernando Greve is acknowledged.

2 These calculations include retained profits and correct for tax evasion. In addition, the Lopez *et al*. study shows that, in the period 2005–2010, the income Gini using data obtained from the tax office is 0.63 compared to 0.55 when income is calculated using the household survey CASEN.

3 That line, by construction, indicates that 1 per cent of the population captures 1 per cent of the income, 10 per cent of the population 10 per cent of income, and so on.

4 The expensive student loan system is a heritage of the 'socialist' Presidents Ricardo Lagos and Michelle Bachelet, who ruled the country in the 2000s. The situation started to change, in some respects, after massive student protests in 2011, which compelled the centre-right government of President Piñera to reduce the interest rate charged for student loans from 6 to 2 per cent and move to reduce the role of commercial banks in managing the system.

5 The data is from SIPRI, Swedish International Peace Research Institute.
6 Under DL 600, investors enter into a legally binding contract with the Chilean state, receiving a number of attractive guarantees and rights.

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13 Mining, development and environmental sustainability in Peru

Jemima García-Godos and Henrik Wiig

Peru's economic growth over the past 15 years is based on an export-led strategy where the exploitation of natural resources, particularly minerals, plays a key role. Mining has been a key feature of the Peruvian economy throughout the country's history, influencing not only economic policies but also social relations. Considering Peru as an emerging economy, this chapter focuses on the role that mining has played in the Peruvian development strategies since 2000. That year marked the end of a decade of authoritarian rule, a period during which a number of neo-liberal institutional changes took place in Peru, setting the ground for the development policies of three subsequent democratically elected governments. These political changes have not altered the basic elements of the Peruvian economic model, in spite of increasing challenges to its implementation and legitimacy with regards to social policy and environmental issues.

Our point of departure is the acknowledgement that the task of improving the wellbeing of societies (our working definition of *development*) involves sustained levels of economic activity and economic growth. At the very basic level, all forms of economic activity involve an engagement with the physical environment and the use and exploitation of natural resources. In that sense, all economic and productive activities that form part of development strategies leave an imprint on the environment. What is on debate is how much of an imprint is acceptable, and under which criteria. In other words, how much natural resources is it sustainable to use and how, given environmental and social concerns. It is from this point of view that we engage in a discussion of the role of mining as an explanatory factor in Peru's current contemporary development strategy.

The chapter is structured as follows: We first provide a brief introduction to Peru's economic history, an export-led history where the exploitation of natural resources has given great impetus to economy growth for relative short periods of time, without contributing to sustained socio-economic development. The following section discusses the institutional changes and economic policies implemented in Peru since the 1990s, originally in the framework of structural adjustment. The 1990s mark a fundamental change in the country's economic development, as it takes effective action to establish a clear neo-liberal

economic model. The model continued also after 2000. We then move on to discuss in greater detail the Peruvian mining sector, the 'engine of growth' in Peru's development strategy. We will show how behind the increased presence of socio-environmental conflicts in the political and social landscape of contemporary Peru lays a complex situation where local and regional grievances intersect, with some social actors getting more voice than others. The chapter concludes that mining in Peru is an area in need of state intervention of many kinds, if the engine of growth is to secure both social and environmental sustainability.

Peru's economic history: an emerging economy time and again

Export-led booms are a constant variable in Peru's economic history. Since becoming a republic in 1821, the exploitation of natural resources has raised great expectations among the Peruvian economic elites and political leaders of the time, seeking to obtain fresh revenues to strengthen otherwise weak state budgets. Such was the fate of guano in the second half of the 1800s, rubber in the early 1900s and fisheries in the 1960s, the latter leading to the depletion of the resource itself. Economic booms have come and gone, leaving much social and political debris behind (Contreras & Cueto 2013; Hunt 2011). In most instances, the central state has played a pivotal role in economic policy and development, although with various degrees of involvement in production itself, including mining.

To understand Peru's current development policy, it is necessary to glance through the country's economic history over the past 50 years. The military government of General Juan Velazco Alvarado, in power since 1968, introduced a number of political and economic reforms that have been described as a 'revolution by decree' (Kruijt 1991), which aimed to take national control over the economic development of the country. While many of the reforms can be considered progressive in retrospect, the motivation was less so, as the army leadership undertook the reforms as preventive measures to avoid a slippage into communist rebellions as seen in other parts of the region (Booth & Sorj 1983; McClintock & Lowenthal 1983). The Peruvian agrarian reform of the early 1970s put an end to the power of the landed oligarchy, distributing large landholdings among peasants and tenants across the country (Kay 1982; Mayer 2009). Oil and mining production plants operated by foreign companies were expropriated and nationalized (with only one exception),[1] and direct national investment and a more stable labour force in the mining sector became the rule. Although volatile, high mineral prices in the 1970s created a favourable environment for higher investments in medium and small mining enterprises (Glave & Kuramoto 2007, p. 137). While the reforms underwent serious setbacks in the late 1970s under a new military leadership and there was much economic and political unrest, few were prepared for what was to come in the 1980s.

The lost decade of Latin America was possibly even more so in Peru than in other countries of the region. The return to democratic rule in the 1980s was

also the year chosen by the communist Maoist party Shining Path to launch a guerrilla war against the Peruvian state. Battling between high inflation, economic stagnation, an international debt crisis, an internal armed conflict and the falling price of minerals, the governments of Fernando Belaúnde and Alan García tried and failed to keep the country's economy afloat (Sheahan 2001). Several measures were applied, such as controlling prices, sustaining subsidies, even declaring default to the foreign debt. The mining sector was strongly affected by García's fixed exchange rate policy, which worked against Peruvian exports. Guerrilla attacks targeting all sorts of production plants as well as labour union leaders made the situation even more precarious. The decade ended with hyperinflation on the thousands (Sheahan 2001, p. 192). For Peruvians today, the 1980s is considered the time of chaos.

Peruvian economic policies since the 1990s

By the 1990 presidential elections, there was broad agreement among political forces that something had to be done to overcome the economic crisis. 'Something' meant a radical change of policy compared to that of the 1980s. The scene was set for structural adjustment, that is, economic liberalization and stringent macroeconomic stabilization. In this context, the electoral debate was not about policy options, but rather about how fast the change ought to be. A political outsider, Alberto Fujimori campaigned for a gradual change; his main contender, Mario Vargas Llosa, openly opted for a quick change, a shock. Fujimori won the elections, but implemented the shock. The 'Fujishock' of August 1990 changed the rules of the game for the Peruvian economy overnight. All price control measures were lifted, as were subsidies to national products and protection measures against imports. Salaries for the public sector were either cut down or frozen. The price of petrol went up 30 times overnight, with all other prices adjusting to the new conditions. Prices for public services were adjusted to cover deficits first, while the privatization of state enterprises started a few years later. Incentives for foreign companies were established. The shock was so brutal and its impact so uncomprehensive when it happened that, contrary to what could be expected, it happened in the absence of public uproar.

In retrospect, the structural adjustment implemented in Peru was successful in controlling inflation, regaining access to international financial markets and reactivating investment and production; it was less so concerning employment, social inequality and dependency on foreign capital (Sheahan 2001, p. 210). Programmes to address the social impact of structural adjustment were put in place a few years after the shock, and an increased focus on poverty alleviation marked the social agenda for the rest of the decade – albeit on the basis of new forms of centralization (Gonzales de Olarte 2000) and neoclientelism (Tanaka 1999).

Changes in economic policy during the 1990s also involved new institutional and normative frameworks for investment (national and international), taxation, property rights (material and intellectual), and for the exploration and

exploitation of natural resources. Monitoring institutions such as the Ombudsman Office and various oversight bodies were created to supervise the free market competition in all productive sectors. The effect of structural adjustment was mixed in the mining sector. The reduction of public expenses led to massive dismissals of labour force in state-owned mining companies, wiping out labour unions in the sector. At the same time, the mining sector experienced a period of modernization in the 1990s, as the state assumed the deficits of state-owned companies, 'putting them in good shape' again before selling them as part of the privatization programme. In 1992, Peru's General Mining Law was approved, providing a reliable legal framework to promote investment. According to Glave and Kuramoto (2007, p. 107), it is in this new context that major gold mining projects were initiated.

Since the mid-1990s, the Peruvian economy has continued to grow at unprecedented rates. According to official figures, GDP growth increased from 4.04 per cent in 2003 up to 9.80 per cent in 2008. While 2009 registered the lowest growth of the past decade, the economy showed a fairly quick recovery, reaching 8.79 per cent in 2010. For 2011 and 2012, the figures are 6.91 per cent and 6.29 per cent, still high by international standards. As will be shown below, much of this growth is due to incomes generated by an export-led mining sector, which has enjoyed favourable international prices over the past two decades, in spite of some fluctuations. The macroeconomic stability achieved in the 1990s has become a much valued asset by subsequent Peruvian governments in the 2000s, and few dare to challenge the model. Current President Ollanta Humala, originally a centre-left candidate, changed his policy options during the 2011 presidential election to assure national and international investors and financial actors that Peru would continue along a path of economic stability and liberalization.

What about environmental concerns amid economic liberalization? Institutionalization has also taken place in this area, although in slow motion, so to say. A National Environmental Code was established in 1990, setting some restrictions to mining operations. According to Glave and Kuramoto (2007, p. 154), it is in response to this instrument and upon initiative of the mining sector itself that social and environmental obligations were incorporated for the first time in mining operations through Legislative Decree 708 of 1991, a decree aimed at promoting private investment in mining. Although several initiatives regarding environmental monitoring followed, it would be first in 2005 that a General Environmental Law would be approved by Congress, creating an oversight body to monitor environmental impact in Peru, CONAM (Consejo Nacional del Ambiente; National Council for Environment). A few years later, this body would be incorporated into the new Ministry of Environment established in 2008 (Legislative Decree No. 1013 of 2008). On the background of increased social conflict related to extractive industries over the past decade, it is significant that the Law of Prior Consultation was the first law approved by the Humala administration in 2011.[2] The following year, special legislation was established to address the issue of illegal mining.[3]

Mining in Peru: the tricky entanglement of production, employment and environmental considerations

Mining can be considered the engine of economic growth in the Peruvian success story of the last decade. As China entered the world economy, rising prices on all sorts of natural resources led to a considerable increase in Peruvian mining activity, now constituting the major value creation sector of the economy. In 2007, mining's share of GDP was 13.2 per cent (IPE 2012, p. 23). However, the real importance of the sector becomes visible in the national export statistics, where mining constitutes 57 per cent, compared to only 9 per cent for agriculture and 7 per cent for fisheries (IPE 2012).[4] Copper and gold constituted 40.4 and 36.9 per cent of Peru's mining exports in 2012, destined mainly to China (25.3 per cent), Switzerland (19.7 per cent) and Canada (12.3 per cent).

Export tends to fuel growth by facilitating imports of production techniques and machinery. Increasing state natural resource tax revenues leads to rising public investments in infrastructure, which improve productivity in other sectors. In 2011, investment, in the mining sector itself reached US$7 billion, 77 per cent above the previous year and a historical record by all standards (IPE 2012, p. 10), having considerable demand effects towards other sectors in the economy. The current status of planned and probable future investments reaches US$59 billion (MINEM 2014). In sum, the total effect of increased investment in the Peruvian mining sector has been prolonged economic growth rates since 2002 (World Bank 2014).

In spite of the overwhelming impact of mining for economic growth, it is not easy for most people to observe direct benefits from this activity. The sector is highly capital intensive and creates relatively few jobs within the industry itself, in spite of its high share of value creation. This is also the case in operation sites, where the need for skilled and unskilled labour might not meet the expectations and capacities of local populations. In 2007, for instance, the sector only employed 1.3 per cent of the labour force (IPE 2012, p. 25), while official figures show an increase in the absolute number of employees from 79,000 in 2003 to 211,000 in 2012 (SNMPE 2013, p. 20).[5] Estimates on a macroeconomic equilibrium model based on the input–output matrix[6] from the Peruvian Bureau of Statistics indicate, however, that an increase in mining exports would have a major impact in employment creation. Briefly stated, for every US$1,000 million increase in mining exports (at 2007 prices), 78,156 new jobs can be created, including direct, indirect and induced employment (IPE 2012, p. 27). Furthermore, only 10 per cent of these jobs would be in the mining sector itself, the rest being created in other economic sectors. Considering that the current portfolio of projects with high probability to be completed (i.e. those expanding ongoing operations and those with Environmental Impact Assessments approved) would result in US$14,877 million per year (average) for the entire period of operations, the impact of mining upon the entire Peruvian economy and employment is vast. In the remainder of this section, we examine in more detail the role that

mining plays in the current development model, bringing together several considerations necessary to address the issue of environmental sustainability of mining as an engine of growth.

Mining processes and concessions

The lifeline of a mining project has five steps, often extending over several decades: (i) prospection, (ii) exploration, (iii) development, (iv) exploitation, and (v) closure. Time is an important dimension to bear in mind when assessing the return of investments made and their impact at the national, regional and local levels. In Peru, any company or individual might use available cartographic information to assess the amount of mineral present in an area, and then make a concession request to explore further on the ground. Concessions must be registered at the Geological Mining and Metal Institute in Peru (INGEMMET). Once a deposit is identified and mapped, companies must produce a feasibility study to show that the project is economically viable and, furthermore, an Environmental Impact Assessment (EIA) as part of the application for the right to exploit the resource. Consultations with local residents and other users of the area is a requirement in the latter (Madalengoitia 2012). The detailed plan on both development and exploitation of a natural resource – for example, if the company plans an open pit or a closed mine – must furthermore include plans on how to close the operation and restore the area in an environmentally friendly manner after the deposit is no longer commercially viable.

According to the Peruvian Constitution of 1993, all natural resources (including sub-terrain resources) belong to the nation, with the Peruvian state enjoying the sovereign right to use them for the promotion of economic development, including granting concessions for their use to private actors.[7] According to the Constitution, each level of government in Peru (central, regional and local) has political, economic and administrative autonomy in matters within their competences.[8] However, these competences have to be performed in 'harmony' with the other levels of government, including national plans.[9] It implies, for example, that regional development plans cannot be considered in isolation from national and local plans of development. According to these legal norms, development should be harmonized between the three levels of government.

In Peru, concessions can last for a maximum of 60 years. Contracting parties are authorized by the respective concession contract to undertake the collection of fees, rates, tolls or other forms of investment recovery. The central government may also enter into legal stability agreements with concession holders and investors. In such cases, investment requirements and deadlines established in the contract are applicable for specific periods. It is important to note that also regional and local governments can grant concessions for small-scale and artisan mining through the Regional Directorates for Energy and Mining.[10]

The Fujimori government paved the way for entry of international mining companies to Peru through Law 26505 on Investment Promotion of 1995. The

law guarantees a period of 15 years without changes in the general legislation affecting contracts, four years of depreciation of losses, repayment of value added taxes and the creation of various channels by which companies can strike a deal by compensating the affected communities directly. The transparency of this system made Peru attractive for foreign investors when mineral prices at the world market started to increase in the early 2000s.

Distribution of income originated in the mining sector

The presence of central and sub-national governments discussed earlier is of relevance for the distribution of incomes generated by mining in Peru. Indeed, the structure of the public sector budget to be approved by congress differentiates between the central government and decentralized levels. According to the Constitution, the budget has to allocate public resources equitably, meeting criteria of efficiency and decentralization.[11]

The mining sector contributes 36 per cent of the total government revenues (IPE 2012). Mining companies contribute to the Peruvian public economy through a combination of two forms of taxation: one based on net income (known as *canon minero*), the other based on gross production (known as *regalías*). According to the EITI Report for 2011–2012, Peru collected more than US$6 million annually in natural resource taxation, of which 55 per cent comes from the mineral industry (EITI 2014).The central government keeps half of the canon minero while distributing the other half among the sub-national geographic units where the resource originates.[12] Accordingly, the district(s) where extraction takes place receives 10 per cent, the provincial level 25 per cent, the departmental level 40 per cent, while the regional government gets the remaining 25 per cent (Glave & Kuramoto 2007, p. 170). Concerning regalías, this tax increases from the initial 1 per cent of annual sales income up to 3 per cent when total sales are above US$120 million. This royalty is designated to productive investments aimed to increase employment in the areas affected by mining as the activity itself, as mentioned above, offers limited labour opportunities for the local population.

Social conflicts

If mining is such an important source of income in Peru, why does it raise such levels of social conflict? By February 2014, 136 socio-environmental conflicts (active and latent) have been registered by the Social Conflict Monitoring System at the Peruvian Ombudsman Office. This figure includes both active (approximately three-quarters) and latent conflicts. Out of the 136 conflicts, 103 (75 per cent) are related to the mining sector.[13] Socio-environmental conflicts related to mining usually refer to those cases when local populations protest against natural resource extraction, for many reasons. Local populations in Peru have actively protested against mining companies using various strategies, the most common being road blockages – with bricks, stones, trees and

flaming tyres – often to prevent company transport, but also affecting third parties by impeding normal traffic. In some cases, local protests have ended in violent events. The active use of violence by local protesters can have two opposing aims: (i) to prevent mining activity altogether, or (ii) to improve their negotiating capacities vis-à-vis mining companies. Local protests can also be related to regional and local politics, based on local grievances or distribution of resources and incomes (Barrantes *et al.* 2012). Either way, high levels of conflict in the mining sector may have a deterring effect on new and continued investment.

To understand the dynamic of social conflict between local populations and mining companies in Peru, it is necessary to understand the way these two meet in the context of mineral exploration and exploitation. To exploit natural resources, a state might choose between three main approaches: create state companies, sell the natural resource site to the highest bidder or invite private companies to extract the resources based on different forms of taxation. Which approach benefits the national and local population most will depend on the institutional setting, the state's ability to control the activity and the political risk perceived by private companies and investors (Wiig 2013). In Peru, the Fujimori administration and the succeeding governments mixed the last alternative with a 'laissez-faire' approach to the market economy. This implied a marginal participation of the central state in mining activities other than overall regulatory frameworks. If contested by local populations, an agreement with central government as owner of the resource would not be enough for a private company, given the fact that the central state is politically reluctant to use power to protect granted concession rights. In practice, this means that companies are left to negotiate with local interests on their own, to prevent incidents that might uphold both investment and later exploration. And popular pressure works. Due to heavy opposition by the local population and with support of the regional government, the Conga goldmine with a US$5 billion investment has stopped operations in the northern department of Cajamarca, while the companies in the southern department of Arequipa reached an agreement with local communities through a valuable quid-pro-quo offer of economic support to local development in exchange for putting an end to protests.[14] Whether local protesters actually aim to stop mining or simply demonstrate their power to improve their bargaining strength vis-à-vis companies is difficult to assess once a conflict has escalated. At the same time, it is important to be aware that a number of potential or underlying conflicts are probably never recorded in the socio-environmental conflict statistics when companies and local communities are successful in reaching agreements based on dialogue and mutual interests (Ormachea *et al.* 2014).

Variation in mining operations and environmental considerations

Until now, we have addressed mining in this chapter as a homogenous category of production with the basic feature of producing great incomes. In reality,

mining in Peru consists of sectors that are both socially and technologically worlds apart. Briefly stated, large-scale mining is dominated by multinational companies using large-scale machinery and the latest technology, while small-scale mining is driven by small units and individuals often using rustic technology and muscle power to extract the minerals from the ground. The Peruvian Ministry of Mining operates with four categories based on the size of operations: *large*, *medium*, *small* and *artisanal* mining, depending on the size of the concessionary area and its production capacity. The activity can furthermore be categorized as either *formal* with a concession, or *informal* without any concession, neither for exploration or exploitation. There is an obvious relationship between size and formality as large-scale mines are difficult to hide, while the high world market price has made gold-digging an alternative source of income for ordinary individuals. However, intermediate combinations do also exist. Informal mines can be rather large, applying huge dumpers and excavators operated by several hundred employees working for an entrepreneur. Alternatively, the activity can be split into separate independent labour teams which together form a large operation within a limited geographic area. There are two major reasons behind large operations opting to remain informal. One is to avoid paying taxes to the central government; the other is to explore areas where mining concessions are not allowed – for example, de facto *illegal* mining in natural parks, protected areas and vulnerable ecosystems.

The environmental impact is essentially different between large-scale formal and small-scale informal mining. Large-scale operations are normally open pit sites where heavy machines mould the rock to extract minerals, with controlled use of mercury and cyanide, in the process. The large amount of unused rock is deposited in a way that prevents drainage into the natural environment. The large amounts of water used in the process are afterwards kept in reservoirs as part of a cleaning process before being released into nature again. If these security measures are followed, the effective negative impact on the environment is highly reduced. Due to increased international attention to extractive industries, large mining companies tend to adhere and apply international social and environmental standards in their operations. However, accidents do occur and there have been several incidences where large amounts of untreated process water have been released directly into nature. There are also localized negative effects of dust and stone powder for the employees working in the mines, but more importantly there is potential conflict over the use of water resources with local farmers and other users (Urteaga 2011). Situations where the water source is completely drained cause legitimate fears of potential consequences among local communities. When the public learned that the Conga mine project had planned to drain four highland lakes by bringing the water to the processing plant in a tunnel, a public uproar arose,[15] causing President Humala's first ministerial crisis in December 2011 and a standstill of the entire project. Thus an integrated approach to the management of water resources is necessary to combine the social, economic and environmental concerns (Preciado 2011).

As noted earlier, gold is one of the most important metals in the Peruvian mining sector and it is mainly exploited by large mining companies through open pits. However, small concentrations of gold in the soil and riverbed sand have become profitable for exploitation by small-scale miners due to increased international prices. Today such small-scale activity is concentrated in five regions in Peru. The most documented case is the alluvial gold washing in the department of Madre de Dios where between 50,000 and 80,000 individuals are constantly washing the soil and sand, destroying up to 50,000 hectares of virgin rainforest.[16] The miners first use river water to separate major particles that contain gold, and then mercury and cyanide to concentrate the metal. The environmental effects vary according to the artisanal method being applied, but include deforestation, excavation of soils forming basins and piles, soil particles released directly into the river and gasoline spillage from the machinery and metals into the ecosystem. The use of cyanide enters the miners' respiration system when applied during the gold separation process indoors, while the mercury is released into the river and is later absorbed through the food chain. A Carnegie study from Madre de Dios finds that 60 per cent of the fish sold at the market in Puerto Maldonado has mercury levels above the permitted limit in foods and that the mercury concentration in hair samples has more than three times the accepted level for 78 per cent of the adult population (Fernández & González 2009).

It has become increasingly difficult to stop informal and illegal mining activities in spite of being localized. This is due to the combined result of the remoteness of operation sites, the presence of local resistance and the political cost of cracking down on the activity. Miners organize protests and road blockages in retaliation to attempts by the central government to formalize or control illegal mining. They have also been able to organize and lobby politicians and decision-makers to continue their activities, including regional governments. The central government has launched a programme leading to the formalization of illegal miners in areas open for concession, in an attempt to regulate the activity and its environmental and social effects.[17] So far 69,055 miners have applied for formalization by declaring their willingness to adhere to the responsible mining methods.[18] However, this initiative must be seen as an initial step to improve the standard as it will remain difficult to actually monitor and enforce legal and environmentally sound operations among small-scale and artisanal mining. In artisan technology, for example, there are few economically viable alternatives to mercury to amalgam small gold particles. A recent report from the Peruvian Ombudsman Office on public intervention regarding informal and illegal mining identifies the implementation of the formalization programme, the effective criminal investigation and prosecution of those who persist with illegal mining and the environmental restoration of sites affected by illegal mining as the main tasks in Peru's environmental agenda (Defensoría del Pueblo 2013, p. 161).

There is hence an inverse relationship between socio-environmental conflicts and the actual pollution problem. The less polluting large-scale mining

meets the strongest social protests, while the rather environmentally disastrous small-scale and informal mining activities are met with an implicit approval by local populations. Job creation and employment opportunities for the local population might be a plausible explanation. It is much harder to see the local and regional benefits that large-scale mining operations might bring to local communities. Employment opportunities are more scarce, requiring often more skilled than non-skilled labour. On the other side, households that become economically dependent on informal mining incomes for their daily survival seem to be willing – or have no option – but to live with the harsh consequences for the environment and their own health. At the same time, the public in general does not necessarily perceive any benefits coming from higher government incomes. As localized 'not-in-my-backyard' resistance obstructing large development and investment projects are met with indifference by the general public, central government lacks popular pressure to push national agendas forward.

Employment is thus a central aspect to consider when assessing the inverse relationship between conflict levels and environmental degradation. Based on official figures, we calculate that the economically less significant informal mining actually creates more jobs than the formal sector does – for example, 196,000 people are employed in large/medium-scale mining, 33,000 in small-scale, 6,000 in artisanal and as many as 630,000 people in the informal sector.[19] While there are relatively strict monitoring mechanisms for environmental effects in place among the larger units (particularly large and medium units), monitoring is completely absent among informal units. And while the central state has taken action to address this challenge, regional governments in Peru are still hesitant with respect to the devastating effects of informal and illegal mining based to a large extent on short-term political interests (Defensoría del Pueblo 2013, p. 15).

Conclusions

The impact of mining in the Peruvian economy is indisputable. The economic growth experienced over the past decade is mostly due to increased mining exports and investments, thus activating other sectors of the economy. In this chapter, we have seen how the incomes produced by mining activities are not only a source of economic growth, but can also be the source of social conflict and environmental degradation. The expectation created by potential mining incomes can be a source of rivalries and conflict among local and regional actors. The position taken by the Peruvian state to leave mining enterprises and local actors to clear their differences on their own has led to more not less social conflict. Both types of actors call for more state presence and intervention as a guarantee to enforce agreements and to protect public interest. The problem is, however, that what local actors perceive as 'public interest' might not necessarily be the same thing central government has in mind. The export-led development strategy implemented by several Peruvian governments over the last 20 years is based on mining incomes, and there is no indication that the

development model will change in the future; rather the contrary. The Peruvian mining-based export-led model is in need of more, not less, effective state intervention if it is to secure both social and environmental sustainability, thus moving beyond regionalisms and short-term gains.

Notes

1 Southern Peru was the only mining enterprise that produced a new investment project as required by the military government, thus avoiding nationalization in the early 1970s (Glave & Kuramoto 2007).
2 Law No. 29785 of 2011, Law on the right to prior consultation by indigenous peoples as recognized by ILO Convention 169, Congress of the Republic of Peru.
3 Legislative Decrees No. 1099, 1100, 1101, 1102, 1103, 1104, 1105, 1106 and 1107 of 2012.
4 Available at: www.snmpe.org.pe/informes-y-publicaciones-snmpe/reporte-estadistico-mineroenergetico/ano-2012-fecha-de-publicacion-junio-2013.html≠pag_6. Last accessed 11 March 2014.
5 Peru's total employed labour force for 2007 was estimated to be 13 million people.
6 Glave and Kuramoto argued in 2007 for the urgent need to update the input–output matrix for the Peruvian economy, in order to be able to measure the direct and indirect benefits of the mining sector upon the rest of the economy. The Peruvian Bureau of Statistics initiated the construction of a new input–output matrix in 2008, and the study undertaken by IPE (2012) is based on that tool.
7 Constitution, Article 66.
8 Constitution, Article 189.
9 Constitution, Article 191, 192 and 194; the Organic Law of Municipalities No. 27972, Article 86; and the Organic Law of Regional Governments No. 27867, Article 45.
10 Article 34 of Organic Law of Regional Governments No. 27867 establishes that 'Regional governments give concessions and any other type of contract …', while Article 59 mandates regional governments with the specific task of granting concessions for small-scale and artisanal mining in their respective jurisdictions. In addition, Article 33 of the Organic Law of Municipalities No. 27972 establishes that 'Local governments can grant concessions to domestic or foreign corporations for the implementation and operation of infrastructure or public services, according to law.'
11 Constitution, Article 188.
12 Constitution, Article 77; Ley de Canon 27506 of 2001.
13 www.defensoria.gob.pe/conflictos-sociales/conflictosportipo.php. Last accessed 11 April 2014.
14 www.defensoria.gob.pe/conflictos-sociales/conflictosactivos.php?it=6. Last accessed 21 June 2014.
15 'Cajamarca en resonancia', Caretas, Edición 2206, 10 November 2011, available at www.caretas.com.pe.
16 Ministry of Environment (MINAM) website, 'Los efectos de la minería ilegal', available at www.minam.gob.pe/mineriailegal/los-efectos-de-la-mineria-ilegal/. Last accessed 29 April 2014.
17 Attempts to formalize informal small-scale miners have been made since the mid-1990s, without success (Glave & Kuramoto 2007). The legislative decrees of 2011 are the latest attempt, showing a significant advance in the relative short period of implementation. See Informe Defensorial No. 160 Gestión del Estado frente a la Minería Informal e Ilegal en el Perú, Defensoría del Pueblo, 2013.
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Part IV
Sub-Saharan Africa

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14 Between emerging economies and protracted conflict

Challenges to sustainability in Sub-Saharan Africa

Morten Bøås

Africa is currently standing at a crossroads. Relatively high growth rates in combination with increased institutional strength have led to greater confidence in Africa's ability to deal with its own developmental and security challenges. However, the continent is also confronted with significant challenges (economic, environmental and political) that could have severe ramifications across several countries and regions (see also Englebert and Dunn 2013).

This chapter will therefore analyse African trends, scenarios and dynamics related to development strategies and their sustainability, describing and identifying issues and hotspots likely to manifest themselves in the short to medium-term horizon by focusing on different African countries in different regions on the continent that represent different regime types, governance of natural resources and development trajectories. External actors are also playing an important role. This is the case of traditional powers such as the US, the UK and France, but also emerging powers such as Brazil, China, India, Russia, Qatar and Turkey. The importance of the latter group is clearly increasing, but it is still the traditional powers that assume leadership roles in times of dire crisis. Africa is therefore currently standing in-between high growth rates and increased institutional strength, and significant challenges. However, even if almost all African countries share some basic challenges, such as youthful populations and the governance of economic transformations and the environment, they also differ a lot. One important aspect in this regard is the strength and capacity of the state and thereby also its stability and ability to steer and guide the development process. This chapter will therefore analyse trends, scenarios and dynamics related to African development strategies and their sustainability, focusing on a variety of countries on the continent that represent different development trajectories, regime types and governance of natural resources.

Emerging Africa?

Economically, Africa is bouncing back after experiencing the combined negative economic effects of the global financial crisis and the uprisings in North Africa, where economic growth virtually stagnated in 2011. Growth on the

continent therefore reached the level of about 4.5 per cent in 2012 and accelerated to 4.8 per cent in 2013. In fact, five of the world's ten fastest growing economies in 2011 were African. These were Angola, Ethiopia, Ghana, Liberia and Mozambique. Parts of this growth are also being reinvested more wisely than in the past – that is, in more sustainable infrastructural and industrial development. West Africa is expected to grow at a rate of 6.3 per cent in 2013, East Africa and Central Africa at around 5 per cent and Southern Africa at 4.5 per cent (see World Bank 2012). As this is taking place during a time of economic recession in Europe and North America, it is impressive, and it led *The Economist* (2013) to publish a special report on the continent entitled 'Africa Rising: A Hopeful Continent', a decade after it wrote Africa off as 'hopeless' (Economist 2000). However, oil-exporting countries will experience most of this growth. In 2012, Nigeria was the sixth largest providers of crude petroleum to the US and Angola the ninth. Growth in these countries is likely to continue, but those relying on other exports and in particular to the European market may grow at a lower rate. This may, for example, be the case of both Kenya and several West African countries (IMF 2012). If Europe's debt crisis continues into the medium-term horizon, it could have severe effects for Africa and affect not only the economy, but also peace and security. There are several reasons for this, but lower earnings from tourism and exports of goods and services will mean fewer jobs and less money in circulation. This could come on top of reduced European aid, foreign direct investment (FDI) and remittances from African migrant workers in Europe, and have ramifications for not only the sustainability of national development strategies, but also peace and security in several African countries. The recent success of African economies has clearly contributed to changing the previous picture of Africa as the 'hopeless' continent. However, there are still a number of protracted conflicts in Africa whose root causes are to be found in complex questions of governance and identity.

Africa's share of global FDI is increasing as a consequence of Asian and Latin American demand for natural resources triggering a boom in international commodity prices that increased resource-seeking investment in Africa (World Bank 2012). This is positive, but these investments have so far not been translated into greater economic opportunities for the population at large (see Bilal *et al.* 2013). The level of job creation is simply still too low, which is an important issue since Africa has the world's youngest population and it is growing rapidly. Hundreds of millions of young Africans will be leaving school over the next decade looking for jobs that currently do not exist and are not planned for either. Africa's youthful population is not only increasing, but it is also better educated than ever before (see UN 2013). There is, therefore, a double potential here: one positive, the other negative. If Africa can tackle its employment creation needs, this young surplus population could become a huge economic benefit and a comparative advantage. However, if African growth does not become more employment intense, the same youthful population may become a powder keg of enormous dimensions.

Sustainability challenges

Climate change and/or increased climatic variability are issues that will affect the whole of Africa, but its effects are not uniform across the continent. Some areas are geographically more vulnerable to this threat, but this is also an issue of state capacity. Of particular concern is the risk of increased drought in states that already are at the very margin of their sustainability. Some environmental challenges are of a local nature and origin, whereas others, such as larger-scale environmental issues and increased climate variability in particular, are manifesting themselves on a regional scale. This is the case in West Africa and the Sahel, on the Horn of Africa, and in various parts of Eastern Africa. The consequences are deteriorating livelihoods with households experiencing shocks in the form of droughts and other natural disasters at an alarmingly more rapid and unpredictable pace. This unfortunately means that households as well as individuals are not able to recuperate from one crisis before being hit by the next one (see also Pedersen and Benjaminsen 2008). However, even if the consequences of increased climatic variability are relatively the same, the effects are not equal across the countries most severely faced with this. There is, for example, quite a difference between the effects felt in countries in the Sahel, such as Mali, and Ethiopia on the Horn of Africa, and the biggest difference is not necessarily the severity of the shock, but the capacity of the state to respond to it (see also Englebert and Dunn 2013). It is worth taking note of the fact that the most relevant response is coming from regimes that the West often sees as having a democratic deficit, like, for example, Ethiopia.

However, even if the awareness of environmental issues such as increased climatic variability is increasing both generally as well as among the political class in Africa, it is still often seen as a luxury, not something the continent can afford to focus too much on. It is still seen mainly as a responsibility of developed countries. There is one important exception to this and that is the focus on nature and wildlife conservation in countries such as Kenya and Tanzania where game parks and nature reserves constitute an important source of revenue for the state as well as for well-connected private entrepreneurs. This approach to the environment means setting aside large areas of land for the purpose of game parks. They do generate revenue, but locals often feel excluded and this has at times caused conflict, even if some more recent innovative schemes have been introduced (see Dunn 2014). Related to this is the debate about land-grabbing for the purpose of large commercial farms as well as for the establishment of grazing cattle. This is an issue of much concern in several countries, including Ethiopia, Kenya and Uganda; countries with demographic trends that suggest that they are running out of available land for an ever increasing number of small farms. New employment opportunities must be established if the relative economic success of these countries is to be sustainable in the future.

The challenges to sustainability in Sub-Saharan Africa are therefore many. Even if each and every African country is as unique as elsewhere, there are

commonalities within the nexus of development, peace and environmental challenges that can be addressed on a regional level. All African countries are currently standing at the crossroads identified above, all have immensely youthful populations, the challenge of a transformation from an agrarian basis to a more industrial foundation for the economy is also something that almost all African countries have in common and they are all, albeit to different degrees, facing environmental challenges. What differs both within and between regions in Africa is the strength and capacity of the state and thereby also its stability and ability to steer and guide the development process. Some African states, such as Botswana and Ethiopia, are showing signs of increased state capacity and the ability to use it for development (if not necessarily democratic) purposes. Others are able to maintain a position of economic and political strength despite internal challenges, such as South Africa and Nigeria. Yet others are lapsing back into conflict and state weakness as was the case of Mali in 2012, while countries such as the Democratic Republic of Congo (DRC) even show few signs of improvement in the short to medium-term horizon.

Different types of African regimes – developmental states and regional superpowers

The question about sustainability and economic growth in Africa is closely connected to the debate about the relationship between democracy, economic growth and the emergence of developmental states also in Africa (see Mbabazi and Taylor 2005). This is a particularly fierce debate and the evidence from Africa is far from conclusive. Botswana, one of the richest states in Africa, is a democracy. However, it was also formally a democracy before it got rich and even if it is universally recognised as a democracy, the same party has been in power since the country gained independence in 1966. Still it is often heralded as an example of a democratic developmental regime in Africa together with the island state of Mauritius.

Botswana is not only a relatively rich democratic country in African terms, but also one example that the 'resource curse' trap can be avoided also in Africa if proper institutions to regulate extractive industries and collect revenue are established. What is particularly striking about the example of Botswana is that it also suggests that a patrimonial foundation for the elite in power may not necessarily be totally alien to development, economic growth and a democratic evolution of the regime. In the case of Botswana, its leaders were clearly deeply rooted in the traditional hierarchies of rural village life and cunningly used personal power and different types of strategies of reciprocities and assimilation to strengthen the legitimacy of themselves as the ruling class (Pitcher *et al.* 2009). However, these techniques of power were also utilised in such a way that it also established a formal institutional foundation not only for their rule, but also for natural resource governance and revenue collection (see Taylor, Chapter 17 in this volume). The question that still has not been properly answered is the degree to which this depended on the factors of a small (1.4 million people)

population and the fact that the natural resources in this case were kimberlitic diamonds. These are diamonds that can only be extracted through deep-underground mining which entails a long-term perspective from both the state in question and the company (in this case, De Beers). These factors were undoubtedly important in Botswana, but they should not distract our attention from the very foundation of the Botswana case as it may suggest a trajectory from a regulated version of neopatrimonalism to a state that increasingly assumes a more legal-bureaucratic fabric. If this is the case, it also has important implications for how we approach other African states, including those with developmental characteristics, but also democratic deficiencies.

Particularly the Ethiopian experience is fiercely debated, dividing scholars and policy analysts into two distinct camps: those that first and foremost see Ethiopia as a 'developmental' state and those that focus on its democratic deficit (see Clapham 2006). Thus, the Meles' legacy will most likely be debated for years to come and much will depend on how those that now have assumed the mantle of leadership after his death will handle the situation. However, certain things cannot be questioned. His era is one of unprecedented economic growth in Ethiopia, recording growth rates between 7.5 to 10 per cent during the last three years, and in June 2012 the IMF raised its economic forecast for Ethiopia to 7 per cent, up from 5.5 per cent due to lower inflation (IMF 2012). The economy is still based on agriculture (accounting for 41 per cent of GDP and 85 per cent of total employment), with coffee being a major export crop. However, the five-year Growth and Transformation Plan unveiled in October 2010 presented ambitious development objectives, focusing on foreign investment in textiles, leather, and commercial agriculture and manufacturing (see Bøås 2013).

Meles was, therefore, undoubtedly a statebuilder, albeit not necessarily a democrat. The state 'he' built had real institutional capacity – for the first time in Ethiopian history, the state could offer its citizens an adequate response to drought – but his legacy is also clearly one of a democratic deficit concerning individual political liberties, including the freedom of expression, and the Ethiopian People's Revolutionary Democratic Front (EPRDF) currently controls all but one of the 547 seats in the National Parliament. Meles, however, argued that the developmental state should be autonomous from the private sector in order to reward developmental activities and to punish rent-seeking. He summarises the history of other developmental states by asserting that 'most, if not all, of the well-known developmental states have not been democracies; they have at best been semi-parliamentarian' (see Zenawi n.d.; Waal 2012). Meles, therefore, made an attempt to articulate an ideological rationale for what we may call 'electoral authoritarianism': a system of rule which carries through with elections at regular intervals in an institutional environment, and where what for the regime is the acceptable face of opposition is allowed to take part and win some seats, but never really substantially challenge the regime in power.

It remains to be seen what future trajectory a country such as Ethiopia will take (see also Borchgrevink, Chapter 18 in this volume). Will it stay

authoritarian or follow the path that the Botswana case suggests? This is far from certain as the current Ethiopian regime is built on a different foundation than the traditional benign and regulatory patrimonialism that the initial political class of Botswana was built on. However, there is also an emerging middle class in Ethiopia and it should at least not be completely ruled out that African countries such as Ethiopia may follow a similar trajectory as the East Asian developmental states, where it was precisely the middle class, as it gained more autonomy, who played the role as catalyst for the democratic reforms that were gradually introduced. If this is to take place, it will have important implications for governance issues, including the governance of natural resources.

African regional 'superpowers'?

Africa is not only home to failed states, disrupted development and an emerging but diverse group of embryonic 'developmental' regimes; it also houses two well-established African 'superpowers'. Nigeria and South Africa, despite the internal conflict in the case of Nigeria and the fact that South Africa still grapples with the consequences of apartheid, are the regional hegemonic powers. As strong military powers and large economies with a cultural reach well beyond their borders, Nigeria and South Africa are therefore, despite their unsolved internal problems and contradictions, also aspiring for the status as 'world powers'.

In March 2014, the BBC reported that the Nigerian economy had become the largest in Africa, overtaking South Africa as the continent's powerhouse (see BBC 2014). Major global players such as the International Monetary Fund (IMF), the World Bank and Goldman Sachs have also embraced this favourable analysis. What is so fascinating with Nigeria is that this co-exists with rebellions in the Niger Delta as well as in the northern part of the territory and its system of rule is still very much the same prebendal state as Joseph (1999) observed in the 1990s. Nigeria clearly still harbours several internal conflicts and a complex set of governance challenges, but it has not fallen over the brink and the Nigerian state is also projecting its power externally. It remains the regional hegemon of West Africa, a contender for the status of continental hegemony and also for the status of a future world power. This is the Nigerian paradox: it is a Nigeria of hope and aspirations, but also of grief and grievances.

In this country of paradoxical proportions, oil is not everything, but it is still an issue that everything and everyone relates to in some way. The country is the twelfth-largest producer of petroleum products in the world and the oil sector accounts for approximately 80 per cent of GDP and more than 90 per cent of total exports (Bøås 2013). Outside this sector, the picture is quite grim. As in most other places in Africa, the growth is in extractive industries, which – at least in the short-run – tend to have little employment impact, but may have huge negative environmental impacts (see, for example, the case of Mozambique in Wethal, Chapter 16 in this volume). This can increase social tensions rather than reduce them, as has become evident in the case of the Niger Delta (Watts 2008). Marginalisation and social exclusion are therefore also parts of

this picture, and this is vividly expressed in (violent) debates about citizenship rights and issues of contested belonging fuelled by a combination of state neglect and environmental disaster (see also Bøås and Dunn 2013).

This is vividly illustrated by the situation in Northern Nigeria and the areas around the Lake Chad Basin, which is also the place of origin of the Islamist insurgency of Boko Haram. The closer one gets to the Lake Chad Basin, the dustier the air becomes, the wind is fiercer, and plants are disappearing and the once fertile soil is turning into sand dunes. Cattle are dying and fish stocks diminishing as the lake is drying up and it is a long time since the Braga market in Maiduguri processed and transported fish to other parts of the country. Fed by the Chari River through the Lagone tributary, which used to provide 90 per cent of its water, Lake Chad was once the largest freshwater reservoir in the Sahel region, covering an area of about 26,000 square kilometres. Today it is less than one-fifth of its original size, and the impact of the drying lake is causing tensions in all communities around Lake Chad (Adesoji 2011; Bøås forthcoming).

The consequence is that those farmers and herders who are moving elsewhere to greener areas where they compete for land and grazing resources with host communities. Youths with family contacts elsewhere also move, to Kano, Lagos or Abuja, in search for jobs. Those that have to stay are increasingly frustrated by the lack of livelihood opportunities, leaving some of them sensitive to the discourse of Boko Haram; some because they are attracted to the ideology as it convenes a combined narrative of betrayal by the state and traditional leaders and the possibility of new life opportunities if only their brand of Islam was embraced in full, others simply because joining Boko Haram offers a new set of livelihood opportunities: money while the conflict is ongoing and the possibility of an amnesty programme similar to the one in the Delta if a post-conflict phase would ever occur (Bøås forthcoming).

At a glance, the Southern Africa region looks remarkably stable. Since 1975, there has only been one major conflict in the region, in Angola, which ended in 2002, and one lesser conflict, the civil war in Mozambique. This is in remarkable contrast to most of the other sub-regions of Africa, and as a region Southern Africa has the most robust middle class on the continent. South Africa is the central player in the region and its economy dwarfs that of its neighbours. It has the most advanced infrastructure, literally tying the region together, and its businesses are spread throughout the region.

The major concerns in this region are economic inequality and bad governance. The disparity between South Africa and its neighbours is both a blessing and a curse. South Africa's private sector has the wherewithal to invest in its near abroad. However, the risk of polarisation is real, where the most advanced economy of a region attracts most of the external investments and grows exponentially faster than its neighbours. South Africa is a magnet for immigrants looking for a better life through the pull factors of a relatively wealthy and advanced economy and the push factors of poverty (Zimbabwe) and conflict (DRC). South Africa, however, has its own problems, not the least of which is

stubbornly high unemployment and high internal income inequality. The region depends on South Africa as the engine of growth, but decades after the end of apartheid it is still uncertain whether the country will assume this role to its full capacity, because the factors described above are further stressed by political challenges in South Africa, particularly within the governing African National Congress (ANC).

Jacob Zuma's rise to the head of ANC and election to the presidency in 2007 signalled a split in the party and concomitant rise of the 'populist' wing of the ANC. However, almost since the ANC's turn to the right early in its rule, the ANC has been expected to split into a moderate wing and a populist wing (or even conservative and radical). It never has. Rather, the struggle for power has remained within the ruling coalition. This power struggle has, however, been moderated by non-party forces, the same that helped overthrow apartheid, and these – the judiciary, the media and civil society – remain relatively robust and independent. That said, there is a growing problem of corruption in South Africa. Part of this is due to ANC's aggressive 'black economic empowerment' programme. Somewhat ironically, the ANC can be said to follow the same model of transfer of wealth to its constituency as the National Party (NP) in the 1950s (see also Hentz 2005, and Scott *et al.*, Chapter 15 in this volume).

The role of external actors – China and the BRICs

Questions concerning Africa's sustainable future are not only determined by internal forces, but also by external forces. Currently Africa is considerably more interesting to the world and global markets than it has ever been. As the world is becoming more multipolar, with several countries competing for resources and investment in Africa, while African countries increase and improve state capacity, new opportunities emerge (Brown and Harman 2013). In this regard, much ado has been made about the role of China and the other BRIC-countries in Africa.

First, it is important to dispel certain misconceptions. The BRIC is not a particularly strong alliance, nor is it triggering the next 'Scramble for Africa'. The BRIC-countries are in as much competition with one another as they are with the EU and the US. Furthermore, they are at very different levels of economic development: Russia and Brazil's per capita GDP is close to $13,000; China's is $5,414; and India's $1,389 (World Bank 2012). Although the BRIC's economic interest in Africa goes well beyond resource extraction and infrastructure development, Africa's resources are indeed the attraction. The 'Scramble for Africa' was punctuated by the Berlin Conference of 1884/85, when Metternich orchestrated the partitioning of Africa. Partition, such as it occurs today among the BRICs, is done through competition for oil leases etc. Rather than being analogous to the 'Scramble', it is more like the so-called 'resource denial' strategy of the Super Powers during the last decade of the Cold War.

For instance, the Indian government is concerned that China will use its financial and military might to secure oil fields that India (a resource-poor country)

needs. Bilateral trade between India and Africa has grown from $967 million in 1991 to $40 billion in 2009; and is expected to reach $70 billion by 2015. China and India may have common cause through their association in the BRIC, but they are also geopolitical rivals: China's trade with Africa went from $3.5 billion in 1990 to over $120 billion in 2010, and it accounts for two-thirds of all BRIC trade with Africa (Xing with Farah 2013).

Brazil's companies, such as Petrobras and Vale (mining), have actively been competing with China for exploration rights. Brazil has raised its trade with Africa over the last decade from $4.2 billion to $27.6 billion. Its interests in Africa, however, are evolving differently than the rest of the BRIC. It is not resource poor, at least not since 2008. Petrobras, the state oil giant, planned to double its investment in Africa between 2007 and 2011; the current plan (2012–15) calls for about 95 per cent of investment to be in Brazil. Rather, Brazil envisions Africa as a growing market for its processed products. Currently, 42 per cent of the goods it exports to Africa are manufactured products. Still, Brazil's footprint in Africa is smaller than that of China and India, as investments are mostly taking place in the Lusophone countries (see Stolte 2012).

Russia's position in Africa, like the rest of the BRIC, has grown, but follows a distinct logic from its fellow BRIC-countries. Africa could become Russia's main competitor for world fuel and raw materials. It will need the minerals that are in short supply in Russia – for example, aluminium ore – while competing with Africa to supply other minerals and commodities – for example, natural gas. Thus, Russia's investment in Africa appears to be also an attempt to hedge its own market position.

Some concluding comments

Africa is currently standing at a junction between high growth rates and increased institutional strength on one side, and significant challenges (economic, environmental and political) that could have severe security ramifications across several countries and regions.

This chapter has therefore analysed African trends, scenarios and dynamics related to development strategies and their sustainability, describing and identifying issues and hotspots likely to manifest themselves in the short to medium-term horizon by focusing on different African countries in different regions on the continent that represent different regime types, governance of natural resources and development trajectories. In this regard, it is important to acknowledge that all African countries, no matter where they stand in this 'junction', have immensely youthful populations, face the challenge of transformation from an agrarian basis to a more industrial foundation for the economy and all, albeit to different degrees, face environmental challenges. What differs both within regions in Africa as well as between regions is the strength and capacity of the state and thereby also its stability and ability to steer and guide the development process. Some African states, such as Botswana and Ethiopia, are showing signs of increased state capacity and the ability to use

it for development (if not necessarily democratic) purposes, while some are, in spite of internal challenges, able to maintain a position of economic and political strength, such as South Africa and Nigeria.

Thus, as much as many challenges and their severity differ across the continent, there are also commonalities with regard to issues of governance and institution-building. Africa has resources, some more than others, to pull itself out of the poverty trap and the resource curse, but the degree to which this will happen depends on the quality of government and institutions. It is this more than the resource base that will determine whether African countries will reap the new economic opportunities that increased economic interests from a wider range of external countries represent, whether they will be able to regulate extractive industries in a sustainable manner and whether they will have the capacity to absorb the shocks that increased climatic variability will cause. The following chapters will illustrate some of these challenges through the cases of South Africa, Mozambique, Botswana and Ethiopia.

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15 Pro-growth challenges to sustainability in South Africa

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South Africa remains in a phase of sustained socio-economic transformation, which began with the first democratic elections in 1994. Society and environment relations have shifted considerably over this period of time, revealing both the type of economic policies that have been pursued in the country post-apartheid and the response of the state and its citizens to environmental issues. South Africa's transformation to a democratic and more equitable society began at the same time that the concept and normative principles of sustainable development started to shape both global and local development discourses. This chapter presents the economic development trajectories and the evolution of sustainable development concepts and practice that have emerged in South Africa post-1994. It will then draw on examples at different scales within the country to reflect on the multiple ways in which the broad concepts of sustainability have been constructed, integrated into policy and practice and implemented at the national and local scales.

The term 'emerging economy' is regularly used to define South Africa's trade and financial relations with the global economy. The government's National Development Plan (2012) claims South Africa's place within the 'emerging economies' block, by stating that:

> in decades to come, as emerging economies increase their share of world trade and investment, the relative decline in the economic weight of the United States, Europe and Japan will have concomitant effects on their political and military influence. This could lead to a reorganisation of the international diplomatic and governance architecture, reflecting new centres of influence.
>
> (NPC 2012, p. 31)

An opinion piece in the country's premier business newspaper, the *Business Day*, stated that 'this country has benefited handsomely from the emerging market fairytale created by quantitative easing over the past few years' (Vollgraaf 2013). This position is reinforced by the inclusion of South Africa, and South African companies, in a range of 'emerging market' indices, such as the Emerging Markets Data Base established by the International Finance Corporation in

1981 and now managed by Standard and Poor's (2013). South Africa has for many decades featured in discussions of the global economy by virtue of the size of the country's economic output, not just in relation to the rest of the African continent but also in relative global terms. According to United Nations Statistics, in 2011 South Africa had the twenty-eighth largest economy in the world ranked by nominal gross domestic product (GDP) (own calculations from United Nations 2013). Although the country's ranking in GDP has slipped somewhat over the last few decades as it has been surpassed by other faster growth economies, it has retained strong economic growth objectives in its economic policy frameworks.

However, South Africa's economy during the final years of apartheid rule and within the new democratic dispensation has failed to yield the levels of growth experienced elsewhere in 'emerging economies'. The main challenges facing the country are a lack of employment, poor location of infrastructure and spatial fragmentation, poor education, a weak and ineffectual public health system, poor spatial distribution of public services, high levels of corruption and crime and the divisions and inequality that continue to define South African society (NPC 2012). However, within the face of these significant challenges during this transition from apartheid to democracy, the state has made significant advances by providing basic infrastructure services, rolling out a large-scale formal housing delivery programme, providing social security and stabilizing the economy (NPC 2012). The rights-based approach of the South Africa Constitution provides a socially progressive framework for development in the country and it remains the overarching frame that holds the vision for development in the country.

The concepts of sustainable development, sustainability and, more recently, resilience are reflected in a wide range of national and local government legislation and policy. Climate change has been a major driver in the most recent shifts towards more sustainable economic growth and a low carbon economy. This has been supported by the introduction of the concept of the green economy at the national and provincial government level since 2010. The three main cities in South Africa, Johannesburg, Cape Town and Durban, have played a major role in shaping sustainable development policy and practice in the country as they are innovative cities whose environmental sectors engage in experimental governance and social learning. Both Durban and Cape Town are recognized globally as leading climate change cities. The environmental departments in all three cities have developed innovative approaches to sustainable development that focus on addressing the needs of the poor, tackling the challenges that face the environment in a country that supports neo-liberal economic growth, and on developing concepts that have political traction, hence embedding sustainable development concerns into the main development agenda of the local state. Nonetheless at a nationwide level, the transition to sustainable development can be considered weak at best, due in part to the ongoing dominance of the country's 'minerals-energy complex' and its continued reliance on coal-based energy (Swilling & Annecke 2012).

This chapter first discusses the government's development approach since the democratic era began in 1994 and how this has evolved over the past decades. It then explores the different ways in which sustainable development has been conceptualized and implemented in South Africa, ranging from weak ecological modernization approaches, legislative and technical mechanisms (such as environmental impact assessments) to inclusive and participatory approaches that have been developed to tackle sustainability and climate change at the city scale. The chapter then reflects more deeply on the current relationship between economic growth and sustainability in the country, exploring the extent to which these two remain as separate agendas.

A national balancing act: pro-poor versus pro-growth

Although the advent of democracy in 1994 signalled the end of apartheid through a peaceful process, the elected majority party, the African National Congress (ANC), was faced with the challenging task of resolving a 'set of political, economic and social contradictions that became uncontainable' during the apartheid era (Marais 2011).The new government of national unity inherited a 'fractured society', one divided in terms of race, class, gender, ethnicity and language, the rural and the urban, and the landed and landless (Enslin 2003). These divisions were stark, particularly in the realm of education and income, and constituted real barriers to equal citizenship (Enslin 2003). The growth model of the previous century had been one of 'elite consumption and extreme levels of resource exploitation' (Swilling & Annecke 2012, p. xx) fuelled by fossil-fuel energy. The apartheid government facilitated the country's economic growth through the repressive and exploitative apartheid policy, which ensured the provision of abundant cheap labour from the black majority to support mining and industrial growth. At the same time, the apartheid government reduced its social obligations to black South Africans to a fraction of the benefits enjoyed by the minority white population (Fine & Rustomjee 1996; Hirsch 2005).

To remedy the imbalances of the past, the new government initiated a process of sweeping policy and legislative reforms to transform South Africa into a constitutional democracy, including: the dismantling of all segregatory legislation; the restructuring of administrative boundaries to create 'wall-to-wall' municipalities across the country to integrate formerly racially divided areas; the institution of systems of land reform and black economic empowerment; and equal access to education and jobs, amongst many other reforms (Enslin 2003; Robinson 1998). In particular, the landmark Constitution (RSA 1996) with its progressive Bill of Rights[1] and a range of new economic, social and environmental legislation and policies generated during the first decade of democracy provided considerable hope for a more sustainable future for South Africa.

Post-1994, the country has been influenced by two broad development agendas: the pro-growth agenda, which focuses on neo-liberal growth and global competitiveness, and the pro-poor agenda, which focuses on addressing poverty

and the inequalities created by the apartheid regime. The pro-poor agenda was initially framed by the new government's Reconstruction and Development Programme (RDP), which set the development agenda for the country post-democracy. The RDP was based on six main principles reflected in this policy statement – 'an integrated programme, based on the people, that provides peace and security for all and builds the nation, links reconstruction and development and deepens democracy' (ANC 1994, n.p.). However, the RDP was quickly succeeded by the neo-liberal Growth Employment and Redistribution Strategy (GEAR) in 1996, a macro-economic strategy that included the goals of achieving a fast-growing and competitive economy which is able to create jobs; redistribute income and opportunities towards those most in need; and integrate South Africa into the global economy (National Treasury 1996). The GEAR policy has provided the impetus and framework for the path of economic growth in the country but it has also been criticized for its neo-liberal focus, its inability to meaningfully address poverty and inequality, and its high environmental costs. The ANC government has 'shifted away from a neo-liberal discourse, favouring, rather a developmental state discourse' since 2002 (Swilling & Annecke 2012, p. 94). However, this approach continues to reflect market-led growth.

Having re-entered the global community of nations, South Africa found a somewhat challenging context where the global power balance was increasingly inclined towards liberalizing economies and encouraging market-based solutions. In this context, the new government chose in GEAR a highly orthodox economic policy orientation. GEAR aimed to reduce 'debt to GDP ratios' to close to 3 per cent, by curtailing growth in public spending on ambitious new social programmes until economic growth levels and public revenue made these programmes affordable. Hence GEAR conflicted with and slowed down the implementation of ANC's pro-poor objectives outlined in the RDP. In effect, GEAR provided the country with its own version of a structural adjustment programme. However GEAR was supplemented with other substantial state-led programmes and regulatory interventions that created an overall policy mix that was, and continues to be, the subject of considerable critique from bodies such as the Bretton Woods institutions, business and international investors. For example, the government put in place a number of redistributive programmes, such as legislation to regulate the labour market to ensure protection for labour, and affirmative action legislation to promote black owned and managed business. During this period, the government also instituted major social and welfare development programmes, particularly in housing and service provision, to redress the inequalities created by apartheid, contributing significantly to the real income of poor people by increasing the social wage.

By the beginning of the millennium, South Africa's economic position started, somewhat belatedly, to show signs of growth and employment creation (Hirsch 2005). Manufactured exports were on the rise, as was the burgeoning service economy with resultant impacts of rising employment, and for the first time in over a decade, some declines in unemployment. This new economic

vibrancy also created space for the emergence of a fast-growing middle-income black population, which took advantage of a growing range of opportunities under the government's Broad-Based Black Economic Empowerment Programme. Government also chose at this time to persist with a measure of fiscal conservatism by holding back public spending as a potential future counter-cyclical cushion against leaner economic times. However, in the face of rising domestic resistance from people still excluded from economic and social development opportunities, the government also took steps to substantially grow the social welfare programmes through initiatives such as the expanded Child Support Grant and also through initiatives such as the Expanded Public Works Programme.

From 2002 to 2007, the country courted international attention from the investment community through seeking to identify itself as one of a number of high potential emerging markets (Andreasson 2011). In particular, South Africa sought to align with influential emerging economic powers such as China, India and Brazil – later to be labelled BRICS (Brazil, Russia, India, China and South Africa). The high levels of economic growth of these countries started to make them critical players in the global economy as sites of production, consumption and services. This in turn stimulated demand for South Africa's mineral resources, such as coal and iron ore, further boosting the country's economy. Higher levels of public sector spending and employment characterized this period, somewhat supported by a new policy framework named the Accelerated Shared Growth Initiative of South Africa (ASGISA) (The Presidency 2005). At the same time, the household credit market grew, supporting high levels of consumption in the economy.

Although this period reflected an improved economic climate and a slight fall in the number of people in poverty, these gains were disrupted by the start of the 2008 global recession. However, through its accumulated fiscal resources and its conservative and prudent financial regulations, South Africa was able to avoid some of the worst destabilizing effects suffered by some countries (The Presidency 2012). Nonetheless unemployment has steadily increased post-2008. The ruling party, the ANC, and its alliance partners (the main trade union movement, COSATU, and the South African Communist Party) have struggled to find a united vision to guide economic and social reforms, with many in these structures arguing for a much stronger role for the state. In response, the post-2009 ANC government, under the leadership of Jacob Zuma and his cabinet, has framed its activities as those of a 'developmental state' in which the government plays a far more assertive and direct role in driving economic and social programmes, than under a state model emphasizing a facilitatory environment. This represents a shift away from an explicitly neo-liberal development path (Swilling & Annecke 2012). This notion of the 'developmental state' has become critical to contemporary state development discourse in South Africa and it is included in key documents such as the New Growth Path (Economic Development Department 2011) and the National Development Plan 2030 (NPC 2012). Possible policy directions include a greater role for state enterprises

– especially in the commodity sector, but also in the financial sector. As part of this shift, the Minister for Economic Development has recently proposed an Infrastructure Development Bill which, if passed, will free the state and parastatals from some of the rights-centred planning and environmental obligations for delivering on major projects. For example, it proposes reducing the length and depth of Environmental Impact Assessments to enable more effective and rapid delivery (Lund 2013).

One of the characteristics of the shift to the developmental state is the initiation of a range of mega-projects throughout the country. Stimulated by the hosting of the 2010 Soccer World Cup in South Africa, a number of large stadiums were built, including related infrastructure, many of which are now struggling to operate within profitable margins. Also notable are transport-related mega-projects, such as the rapid transit Gautrain linking Johannesburg to Pretoria, the uShaka International Airport and associated Dube Tradeport in Durban and recently an eTolling system in the country's largest urban and industrial node of Gauteng. Projects to support and stimulate economic growth include the proposed development of a dug-out port in Durban, the recent state approval for shale gas exploration in the water-poor Karoo region (despite considerable local protest) and the development of the massive Medupi coal-fired power station. Medupi, currently under construction to address the country's energy crisis, contradicts the government's stated policies to reduce greenhouse gas emissions.

However, stresses and tensions around the persistent high levels of poverty and inequality have generated considerable social protests and related contestation of government policies. The social protests have increased in frequency and level of violence since 2000 and are focused on poor service delivery, inadequate housing and the lack of accountability of local councillors and the local state. The tension between the pro-growth and pro-poor agenda therefore underpins development in the country, resulting in the national and local state both being challenged on what it means to act as a 'developmental state' and having to invest resources in both economic growth and social programmes.

Sustainability: good legal and policy framework but weak in practice

Political, economic and social transformation in South Africa has been accompanied by a shift in thinking around human–environment relations in the country. During the apartheid era, environmental thinking had a strong bias towards conservation and natural environmental protection, with limited concern for the social dimension. The establishment of some national parks had involved the forced removal of the indigenous population, creating considerable mistrust of the environmental agenda as a colonial construct, which continues to this day. In 1989, the Council for the Environment, an advisory committee to the then Minister of Environment Affairs, published the Integrated Environmental Management (IEM) procedure for South Africa. Its purpose was to

ensure that environmental impacts were adequately considered in policies, programmes, plans and projects in planning and decision-making processes (Sowman *et al.* 1995). This procedure was supported by the Environmental Conservation Act 73 of 1989. It reflected the approaches being adopted internationally for environmental impact assessments, but was developed through research and participatory approaches to ensure that it was appropriate to the South African context (Sowman *et al.* 1995). The launching of IEM (or EIA as it later became) was the first important step taken in ensuring the economic development and environmental management were considered in relation to each other. However, IEM was perceived by many economic and development sectors as being anti-development.

Environmental thinking began to change in the early 1990s as the concept of sustainable development, as defined in the Brundtland Report, began to influence environmental strategies with the country becoming party to numerous global conventions. The challenge at this time was to shift environmental management away from being perceived as a technical, anti-development, elitist endeavour that had a strong racial bias, towards the concept of sustainable development that was inclusive and addressed poverty and the inequalities created by apartheid (representing strong ecological modernization and a just transition to sustainability). Sustainable development needed to reflect that its core focus on the environment was around protecting the rights of the poor and marginalized by securing a better standard of living through the wise use and protection of natural resources. The country's first environmental impact assessment (EIA) regulations in 1997 and the National Environmental Management Act (NEMA) shortly thereafter in 1998 strongly defined sustainable development in social terms, including environmental justice and equal access to environmental resources. Subsequently, the concept of sustainable development became represented in a wide range of national and local government legislation and policy.

It is particularly at the local level that environmental governance has made the greatest strides in South Africa post-1994. As new local government structures began to emerge in response to the changing policy and legislative environment, environmental governance began to be institutionalized in the form of municipal departments with a specific environmental management mandate and focus (Roberts 2008). At the same time, sustainable development became embedded into the Integrated Management Plans (IDPs) of all municipalities. The three main cities in South Africa, Johannesburg, Cape Town and Durban, have played a major role in shaping sustainable development in the country. Their environmental departments have developed new and innovative approaches to sustainable development relevant in a developing country context, hence embedding sustainable development concerns into the main development agenda of the local state. The cities of Cape Town and Durban were two of the first African cities to enrol in Local Agenda 21 and today both cities have progressive environmental policies (ICLEI 2012a, 2012b).

The role of local government as the developmental state – that is, to meet the developmental needs of its citizens – has influenced municipal responses in relation to environment and sustainability. According to Roberts (2008), the emergence of an environmental agenda at the local level has created tensions in local planning and decision-making as the city strives to integrate developmental and environmental goals with its pro-growth agenda. In Durban, the environmental department has sustained its focus on biodiversity conservation and more recently climate change, whereas the City of Cape Town, through the development of its Integrated Environmental Management Policy (IMEP) in 2000 has adopted a more systemic approach to sustainability (Oelofse *et al.* 2006; Taylor *et al.* 2014).

Climate change has become the major driver in the most recent shifts towards more sustainable development through a low-carbon or green economy in South Africa, in line with global trends and stimulated by the global economic recession in 2008. A flurry of climate change and green economy related policies were produced at national government level from the late 2000s onwards, specifically aimed at the creation of decent green jobs. Climate change was reflected in the political rhetoric of the ANC in 2008:

> As we work to grow and transform our economy, we must recognize that climate change is a new threat on a global scale that places an enormous burden on especially the poor. We must therefore proceed without delay to implement our resolutions on climate change, particularly with respect to the reduction of greenhouse gas emissions and the promotion of renewable energy sources.
>
> (Zuma 2008, in Roberts 2008, p. 535)

The 2011 National Climate Change Response White Paper echoed these sentiments, warning that 'potential impacts on South Africa in the medium to long-term are significant and potentially catastrophic … and life as we know it will change completely' (RSA 2011, p. 9). The country's hosting of the COP17 conference in November 2011 added further impetus to the national drive to address climate change challenges and green the economy. A Green Accord was signed by organized labour, business, community structures and government during the conference, committing all to a green growth path for the country (Economic Development Department 2012).

Despite these strides, the South African government's green economy approach to climate change reflects weak sustainability as it focuses on scientific and technical solutions which do not adequately address the social aspects of sustainability, specifically the high levels of poverty and inequality, which both underpin and are increased by climate impacts. The IIED (2009) argues that the green economy should be economically responsible, protect the biosphere and subscribe to the principles of social justice, redistribution and equity, thus encapsulating a strong sustainability approach. However, the climate change White Paper fails to engage with the full impact of climate change on the poor

– especially in relation to rising food prices, water shortages and crop failures. In part this is because national government has tended to focus on climate mitigation rather than climate adaptation. While there is reference to the rhetoric of a 'long-term just transition to a climate-resilient and lower carbon economy and society' (RSA 2011, p. 5), the notion of social justice is not developed.

Despite the government's concerns regarding the threat of climate change, South Africa has no legislation requiring a reduction in carbon emissions. This can be attributed to the centrality of the 'minerals-energy complex' in the economy, which revolves around a dependence on fossil fuel-based energy. Thus any government aspirations towards reducing carbon emissions are contradicted by government practices which involve massively expanded coal-fired and nuclear energy (Trollop & Tyler 2011). The 'minerals-energy complex' represents a set of 'powerful vested interests' in the mineral and energy sectors, which are shifting in ownership as black elites are increasingly taking control of these interests (Swilling & Annecke 2012, p. xxi). Overall, policy and practice displays the continued power of the private sector corporations at the centre of the 'minerals-energy complex' to shape development to their own profit-driven interests. Eskom, a private company since 2002, is the country's major electricity supplier (95 per cent) through 13 coal-fired, four gas turbine, two hydroelectric and one nuclear power stations, and dominates policy making with regard to the conversion to renewable energy. The greenfield Medupi power coal-fired power plant project, which is currently under construction, will be the fourth largest in the southern hemisphere and the largest dry-cooled power station in the world (Eskom 2013).

A number of critics argue that the South African government's climate change and green economy policy is rooted in 'green capitalism', reflective of weak ecological modernization (Cock 2012; Mol *et al*. 2009; Swilling & Annecke 2012). 'Green capitalism' argues that capitalism can adapt to the climate crisis, being reframed by scientific, technical and market controls while keeping capitalist institutions intact. A range of climate mitigation practices in South Africa reflect this approach, including the carbon trading regime (which is enshrined in the Kyoto Protocol to which South Africa is a signatory); certain forms of renewable energy; the development of biofuels; untested carbon capture and storage underground; 'green-washing' by the business sector; and technological innovation in expensive schemes like nuclear energy and developing 'climate smart crops' (Cock 2012). Bond (2011, p. 2) argues that the green economy is merely 'turning a medium/long-term system-threatening prospect into a short-term source of commodification, speculation and profit'. In this way, the 'climate crisis has been appropriated' as a site of accumulation (ibid.).

Hence a narrow definition of the green economy has been adapted at national policy level reflecting a weak ecological modernization approach which focuses on economic and institutional mechanisms and neglects the social redistributive elements of the global proposals (Christoff 1996; Mol *et al*. 2009). However, at provincial and local level, alternate approaches to the climate change crisis have been developed that focus more strongly on adaptation and

the social aspects of sustainability. For example, the green economy strategy, which was developed by the Department of Economic Development and Tourism in 2012 for the Province of KwaZulu-Natal, promotes a broader and more socially inclusive form of the green economy. The strategy supports the protection of the rich biodiversity in the province while at the same time responding more proactively to the high levels of unemployment and poverty and the needs of a large rural population. It adopts a socio-ecological approach to the development of this 'new' economy in the Province (Sutherland *et al.* 2011, 2012) as a result of its multi-stakeholder and more participatory process of development.

A local example of how municipal government has responded to climate change can be found in the eThekwini Municipality, Durban. The eThekwini Municipality's Environmental Management Department, which became the Environmental Planning and Climate Protection Department (EPCPD) in 2007, participated in ICLEI's (International Council for Local Environmental Initiatives) international Cities for Climate Protection campaign (CCP) from 2000 to 2006. The project resulted in a number of achievements, including the development of the Municipality's first greenhouse gas emissions inventory, a buildings energy-efficiency pilot project, the initiation of a Clean Development Mechanism (CDM) project in 2002 and the start of the Municipal Climate Protection Programme in 2004 (Roberts 2008; Roberts and O'Donoghue 2013; Taylor *et al.* 2014).

Since 2007, the climate adaptation agenda has become a dominant element in EPCPD, with the Municipality developing pro-poor climate change adaptation pilot projects, as they learn by doing (Roberts *et al.* 2012; Taylor *et al.* 2014). A recent partnership between EPCPD and the Municipality's water and sanitation unit (EWS) around ecological infrastructure in the Municipality is supporting the development of integrated water and climate governance in Durban (Sutherland *et al.* 2014). These initiatives are being undertaken in parallel with the city's climate mitigation strategies, embodied in the Municipality's Energy Office (which promotes energy-efficiency measures, such as the roll-out of solar heating in low-cost housing) and the development of a Green Economy Strategy by the city's Economic Development Department. Swilling and Annecke (2012) argue that the challenges on the neo-liberal discourses have created opportunities for creativity and innovation, leading to the emergence of locally developed, context-specific solutions. In the recent sustainability literature which proposes a 'new' definition of sustainability, the emerging idea is that cities are 'integrated socio-ecological networks' and the big question is about how to govern these networks (Arias-Maldonado 2013; Scoones 2007).

As noted earlier, the disjuncture between national and local government in relation to climate change is evident, with national government focusing on climate mitigation, while at the local level, particularly in Durban and Cape Town, climate adaptation measures are emphasized specifically because of their pro-poor developmental focus. The national focus aligns more strongly with its economic

imperatives, while the local responses represent a more sustainable approach which responds to the social impacts of climate change and social and environmental realities on the ground. According to the Head of EPCPD, embedding the concept of climate change within local government activities 'requires not only that the global debate is made relevant locally but that this information is framed within a broader social/environmental justice framework' (Roberts 2008, p. 536).

Hope for a just transition to sustainability or more of the same?

Swilling and Annecke (2012), in their book *Just Transitions*, present a multi-level theory of transition to sustainable development, involving the 'reconfiguration of the institutional and organisational structures and systems of society' (Swilling & Annecke 2012, p. xvi). They argue that the current global approach embodies 'unjust transition' – that is, 'the greening of existing modes of consumption and production without addressing the challenge of (global) inequality' (ibid., p. xviii). Unjust transition has resulted in an increase in the role of the private sector in resource-efficient economies with some reduction of environmental impacts, while not addressing existing inequalities (ibid.). The outcome of unjust transition is 'a divided, poverty stricken, conflictual and socially unsustainable low carbon world' (ibid.). Swilling and Annecke (2012, p. 104) propose as an alternative the concept of 'a sustainability-oriented, innovational developmental state' which has the 'ideational and institutional capacity' to bring about a just transition to sustainability at a national level.

South Africa is still a long way off from this ideal developmental state, built on an innovative and sustainability-driven institutional environment. Similar to its BRICS partners, South Africa has adopted a 'more limited, pro-business, industrialising Asian model' of the developmental state (Swilling & Annecke 2012, p. 94). This is especially evident in the large investments made by the state in 'carbon-intensive infrastructure products' and 'resource-intensive industries' which have grown at the expense of nearly all other sectors (Swilling & Annecke 2012, p. 95). Despite its progressive environmental policies, the post-apartheid developmental state has taken a 'minimalist approach' to economic, environmental and social transformation, reflecting weak ecological modernization.

However, the environmental vision of the National Planning Commission's 2012 National Development Plan aligns strongly with Swilling and Annecke's concept of a 'sustainability-oriented, innovational developmental state'. The NDP identifies three clear priority areas: 'raising employment through faster economic growth, improving the quality of education, skills development and innovation, and building the capability of the state to play a developmental transformative role' (NPC 2012, p. 27). The NDP states that: 'South Africa faces urgent developmental challenges in terms of poverty, unemployment and inequality, and will need to find ways to "decouple" the economy from the environment, to break the links between economic activity, environmental degradation and carbon-intensive energy consumption' (ibid., p. 198). The

NDP's 2030 environmental vision states that '[by] 2030, South Africa's transition to an environmentally sustainable, climate-change resilient, low-carbon economy and just society will be well underway' (ibid., p. 199). However, the ability of the National Development Plan to shift South Africa towards a more sustainable development path is yet to be seen. There are concerns that this plan contains a set of ideals and principles that the country will find very difficult to implement, given its many development challenges, the entrenched pro-growth approach of the ruling state, with its strongly interventionist approach to development, and with limited participation from multiple actors outside of the state. In the past two decades, there has been a growing inequality between the affluent and the poor, and the biophysical environment continues to be degraded and exploited beyond sustainable thresholds in South Africa.

In conclusion, the two streams of economic development and environmental governance have assumed different levels of importance in South Africa's development trajectory and have become entangled at various points in South Africa's history as an emerging economy. Most recently, this connection has been strengthened in the redefinition of the economy as a 'green economy' through a range of policies and programmes at national, provincial and local level. However, this form of green capitalism espoused by the national state has been critiqued as being unsustainable, with business turning to the environment as a new site of accumulation and profit making in the short term without any real changes. The national state commitment to fossil-fuel based energy sources and the relative neglect of renewable energy programmes contradicts policy statements in the National Development Plan that promote the delinking of the economy from the exploitation of natural resources. This contradiction in policies is the major challenge for shifting South Africa's economy onto a sustainable development path. However, the climate change agenda, which focuses on mitigation at the national level and adaptation at the local level, appears to be driving change around environment and development relations at the highest political levels in both the national and the local states.

The divisive racial and class history of environmental management persists in South Africa, with claims still being made that environmental concerns oppose the country's commitments to social development and redistribution. However, the mobilization of civil society towards 'climate justice' is playing an important role in fracturing the binary of environment versus development. There is clear evidence that the poor of South Africa will be the most affected by climate change. It may be that this environmental crisis and the social response to it, at least at the local level, where it will be most strongly felt in people's everyday lives, will challenge the current development path of the country, shifting it towards one which is more socially and environmentally just.

Note

1 Including the environmental right – that is, that everyone has the right to an environment that it not harmful to their health or well-being (RSA 1996).

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16 Searching for sustainability in Mozambique's development strategy

Ulrikke Wethal

For two decades now, the word *emerging* in tandem with Mozambique has mostly been related to how the country is emerging from a long period of conflict, with millions of its population displaced and the economy ravaged. Mozambique is still one of the poorest countries in the world, consistently found amongst the bottom five as measured by the Human Development Index (HDI) –185 out of 187 countries in 2012 (UNDP 2012). Recovering from colonial rule followed by a destructive civil war up to 1992, Mozambique is confronted with large socio-economic challenges: poor access to basic services for its population, lack of functioning infrastructure, weak institutions and seasonal natural hazards. However, from international and national media, organisations and politicians, the picture presented is rather different – impressive growth rates, major gas findings, successful coal exports, potential oil reserves and large inflows of FDI (Macauhub 2014). The country's favourable geographic location with a gateway to the Indian Ocean, and to some of the largest energy-intensive world economies, such as India and China, continues to attract major international investors (OECD *et al.* 2013). These are the reasons why Mozambique is labelled an emerging economy – at least in an African context. The positive outlook from media and politicians and high growth rates combined with very visual Klondike-like developments in the north make both the government and the population picture a much brighter future. But how will the country benefit from and manage the revenues of growing resource extraction in the country?

The discussion of sustainable development has been rather silent in the scholarship on Mozambique's development. Does this reflect a lack of sustainability in Mozambique's development strategy? Already in 1994, the Ministry for the Coordination of Environmental Action (MICOA) was established as the institution to define instruments and coordinate all activities aimed at ensuring sustainable development and preserving the environment. According to the ministry (MICOA 2012), sustainability measures have since then been integrated in the various social, economic and political sectors. To achieve sustainable development, they have taken political steps towards an inclusive 'green economy' that prioritises poverty reduction (RoM 2012). The green economy should improve welfare and social equity while simultaneously reducing environmental risks based on '(i) a reduction of carbon emissions and

pollution, (ii) the use of alternative energies and an increase in energy efficiency, (iii) prevention of loss of biodiversity and environmental services' (MICOA 2012, p. 42). The government is thus committed to ensuring the sustainability of its development path. This chapter will explore the role of coal and gas in Mozambique's development strategy, discussing how the multifaceted concept of sustainability is secured: How are the economic, social and environmental dimensions of sustainable development safeguarded in a development strategy 'going for growth'?

A development strategy in the making

At independence in 1975, state power of the bankrupt country was granted to FRELIMO (Frente de Libertação de Moçambique), who embarked on a nationalist socialist reform, inspired both by newly independent African countries and by other socialist countries (Hanlon 1991; Phiri 2012). Neighbouring Rhodesia (now Zimbabwe) and South Africa perceived the new political regime as a threat to their own white-minority rule and consequently backed the guerrilla group RENAMO (Resistência Nacional Moçambicana), in what turned into a violent civil war from 1977. Less than a decade later – with a state of emergency and the collapse of the Communist world, coupled with droughts and other natural disasters – Mozambique had no choice but to turn to the West (Plank 1993; Neto & Monteiro 1999). Within this context, there was no '"Third Way" between central planning and market economy' for Mozambique (IMF Managing Director Michel Camdessus, cited in Hanlon 1991, p. 239), and the nationalist project was abandoned in favour of structural adjustment programmes (Diogo 1999).

The government has implemented a series of policy reforms since the peace agreement of 1992. Main thrusts are privatisation of public companies, increased fiscal control and reduction of controls on trade and capital (Robbins *et al.* 2009). 'Broad-based' or inclusive economic growth – usually referring to growth that is sustainable in the long term, diversified across sectors and inclusive of a large part of the country's labour force – became export promotion through liberal trade and investment policies (Söderbaum & Taylor 2001). Already by 1993, almost all of the IMF's and the World Bank's policy recommendations had been implemented (Phiri 2012; Plank 1993). Mozambique is portrayed as a model for recipient countries regarding implementation of policy conditions and the World Bank considers Mozambique to be one of Africa's best performing economies and a 'success story of post-Washington Consensus development' (Anderson 2012, p. 2).

Between 1996 and 2006, Mozambique had an average GDP growth rate of 8 per cent per annum (Dibben 2010), and 7.6 per cent between 2005 and 2009 (IMF 2011). The growth rate of real GDP in Mozambique over the period 1995–2010 was the second highest among non-oil exporting countries in the Sub-Saharan Africa region (O País 2013). Much of this growth can be attributed to so-called mega-projects, often controlled by foreign investors. The

main characteristics of mega-projects are that they are capital-intensive, infrastructure-driven, large-scale projects mainly in mining, energy and industry (Gqada 2013). Mozambique is currently receiving some of the highest levels of FDI in Africa, mainly driven by large reserves of coal and gas. It holds the fifth largest coking coal reserve in the world, in the Tete province. The first full year of coal production was 2012, yielding five million tons and US$196.4 million in exports. Through numerous concession rounds, the government has been able to attract some of the largest coal companies in the world (OECD *et al*. 2013). Typically, the majority of coal consumption occurs in the producing country (Bhattacharyya 2011), but the bulk of production in Mozambique is earmarked to feed the growing industries of China and India, illustrating the growing importance of other large emerging economies in structuring Mozambique's developing strategy.[1] Furthermore, estimations indicate that the country has well over 100 trillion cubic feet of natural gas both on- and off-shore – the largest recent gas finding in the world (Gqada 2013). If estimations are correct, it ranks fourth in the world for natural gas reserves (behind Russia, Iran and Qatar) (SIPA 2013). Mozambique is thus increasingly positioning its emerging economy as a future key world energy supplier.

The government has clearly expressed its belief in foreign capital, portraying it as the saviour of economic development, while the natural resource base is the bait. The goal is that the business world should see Mozambique as a destination for their investments (GoM 2013), which in turn will lead to wealth creation and employment – echoing well-known trickle-down thinking (see Bull, Chapter 2 in this volume). This trajectory should make Mozambique a mid-income country by 2025 (CoC 2003; ADBG 2011). However, economic growth does not equal economic development, and huge revenues do not automatically lead to improvements in the living conditions for the population.

Questioning economic sustainability

The first issue to address regarding Mozambique's economic sustainability is its dependence on foreign aid. Foreign aid is still the largest contributor to the national budget, totalling around 50 per cent of government expenditure in 2010 and nearly one-quarter of GNI (SIPA 2013). This dependency has resulted in the economy struggling to grow and the country being unable to confront poverty challenges without a continued flow of aid. Furthermore, the strong position of foreign aid has obliged the government to give substantial influence over domestic policy choices to external agencies in order to maintain the inflow and other foreign financial sources. Thus, external agencies have control over policy formulations, and consequently the performance of the economy (Plank 1993).

Based on 20 years of relations with the World Bank and the IMF, as well as strong links with bilateral donors over 40 years, Mozambican bureaucrats have developed a progressive skill-set in managing complex relationships with international agencies and positively respond to their recommendations (De Renzio

& Hanlon 2007). The common ideology of Western aid practices has constrained policy space for African governments highly dependent on foreign aid, limiting the possibility of experimenting with alternative policy options (Oya 2006). In Mozambique, the main criticism has been that reforms are driven by external donor countries rather than from within, which again has created a public service that is submissive rather than proactive (Gqada 2013). Since the failed socialist reform after independence, there has been no attempt to promote a new 'national project', but instead the policies of the 'Washington consensus' have been followed without much input from civil society or parliament (De Renzio & Hanlon 2007).

When the inflow of aid accounts for such a large part of the state budget, economic growth and stability are sustained artificially by the international donor community. Thus, Mozambique needs to find new sources for the state budget. Although flows of FDI are increasing, they have not surpassed the amounts of foreign aid. There are, however, signs of decreases in aid dependence, with the share of aid in the state budget dropping from 51.4 per cent in 2010 to 44.6 per cent in 2011. This implies increased revenues from non-aid sources in government spending (Gqada 2013), due to growth in the extractive sector and FDI.

The role of mega-projects

A significant characteristic of Mozambique's physical capital is the relatively high share of foreign capital linked to mega-projects (Ollivier & Giraud 2011). These hold important roles in the Mozambican economy, presented as a crucial part of its development strategy (Gqada 2013). Foreign investments in these types of projects are to supplant traditional foreign aid and create employment, industrialisation and spill-over effects. Such investments have been encouraged through the provision of free industrial zone status, reduced tax obligations, tax deductions and tariff exemptions. The government's own Investment Promotion Centre facilitates foreign investments and promotes linkages with local companies (Robbins *et al.* 2009).

The aluminium smelter Mozal was the first of such mega-projects and the largest foreign investment at that time, built in the late 1990s and increasing Mozambique's annual GDP by almost 5 per cent due to its exports (Saul 2011). According to Saul (2011), a third of the 1500 jobs created are held by foreigners, the electricity needed to sustain production exceeds that of the rest of Mozambique combined, it imports needed raw materials and equipment, and it enjoys a wide range of incentives and tax discounts. Furthermore, the linkage effects in the local economy are disappointing as most suppliers and subcontractors are South African, reflecting the country's weak productive base and lack of capabilities in local firms (Castel-Branco 2008).

The main limitation of such mega-projects is the large part of surplus transacted off-shore due to imported inputs, debt services, profit transfers, dividends, royalty repatriation and workers' remittances. Furthermore, the remoteness and

underdevelopment of areas where mega-projects are located poses logistical and technical challenges for linkages with the local economy (SIPA 2013). Regardless, Mozal set an example that encouraged the government to promote investments in mega-projects as one of its key growth strategies (Gqada 2013; Saul 2011). In Mozambique's National Strategy for Development (GoM 2013), the country's natural resources are highlighted as the driving forces of Mozambique's development, which will ensure growth and redistribution in the country. The developments in these sectors are heavily dependent on foreign capital and know-how, and thus likely to feature mega-projects.

The mining sector

The main sector attracting FDI is mining, with numbers constantly increasing. In the first half of 2013, FDI totalled US$3.6 billion, compared to US$0.6 billion in the same period for 2012. The mining industry attracted 91 per cent of the FDI in that period, with 43 per cent directed to coal mining, 38 per cent for natural gas and around 10 per cent for other mining resources (Macauhub 2013). The government believes that mega-projects in this sector will reduce external dependence and increase the diversification of the economy (Castel-Branco 2008).

There are large insecurities connected with a development strategy dependent on gas extraction in Mozambique. First, extracting gas is both costly and time consuming and it may take a decade before gas can be extracted from new fields. Due to the technical nature of exploration, it requires substantial capital before companies can start producing gas, mostly fixed and risky investments (Bhattacharyya 2011). Second, high domestic demand drives production for the largest gas producers in the world.[2] Mozambique lacks domestic demand and will thus be dependent on foreign companies and continued global demand. While an international market for gas exists, only 30 per cent of global consumption was traded in 2009, signifying a very limited world market (Bhattacharyya 2011). Third, the global supply base is expected to grow, thus increasing international competition. While there were 19 gas-exporting countries in 2012, 25 additional are expected to enter by 2020. A larger supply base may lead to price fall, and thus shrink profit margins of the industry, and analysts suggest that global demand will keep up with supply only until around 2020 (SIPA 2013). Additionally, the price of coking coal is currently near an all-time low. If prices do not recover, analysts suggest that the global coking coal price could fall below the marginal production costs. For Mozambique, however, the export of coal to India and China has grown substantially: Indian imports with 35 per cent and Chinese imports with 29 per cent. It is likely that demand from these markets will continue to grow, especially in India, but one needs to address Mozambique's constraints in infrastructure in order to stay competitive in the long term (SIPA 2013). Currently, improving the underdevelopment of transport links and supporting infrastructure is one of the most crucial components in order to secure further development in the mining sector.

The regulations set up around mining activities in Mozambique create opportunities for rent-seeking behaviour in government bureaucracy. As all resources belong to the state, there is a high level of insecurity and bureaucracy linked to resource extraction, which creates an unfavourable business environment. Furthermore, the government shows weak capacity when it comes to monitoring. This could create opportunities for interference and rent-seeking behaviour, both by governmental bureaucracy and by mining companies (World Bank 2005). Although Mozambique became a compliant member of the Extractive Industries Transparency Initiative (EITI) from 2012, the contracts in Mozambique are still non-transparent in nature and allegations of project-specific exemptions beyond legislated framework still prevail (OECD *et al.* 2013; SIPA 2013).

Towards a resource curse?

The well-known resource curse presents a complex picture where resource abundances may co-exist along weak human development indicators (Gqada 2013). There are two main macro-economic dynamics underlying this curse: Dutch Disease and revenue volatility (SIPA 2013). The boom of Mozambique's mining sector creates hope among the population of a general improvement in livelihoods, and within government of revenues from exports and FDI. While the logic of trickle-down sounds promising, the failure of other resource-rich countries (e.g. Nigeria and Sierra Leone) illustrates that this is not necessarily an automatic process. In Mozambique, there are already signs of Dutch Disease in the economy. The massive inflow of foreign capital has caused a real currency appreciation, with an upward effect on prices and wages. This leads to a reduction in competitiveness, exports and employment in non-resource sectors such as agriculture and manufacturing (Phiri 2012; SIPA 2013), which is in stark contrast to the diversification of the economy to which the government predicted FDI-led development should lead. Limited educational and training opportunities mean workers struggle to transfer into more knowledge-based and service-oriented sectors (SIPA 2013).

Revenue volatility means that profits from extractive industries can fluctuate depending on alterations in world commodity prices (SIPA 2013). Due to high levels of FDI, Mozambique is only expected to gain around 10 per cent of its estimated total value. In contrast to the message from government, this is supposedly consistent with what a developing country would receive from this type of resource extraction (Akwagyiram 2013). More importantly, the price volatility could make governments borrow against the value of the resources, resulting in deficit spending and increased indebtedness. The Mozambican government has already rapidly increased its external and internal debt, which could threaten economic sustainability. During the end of 2013, there have been signs of a sharp rise in debt from foreign loans secured on the expected trade of the country's future resources, as well as private credit building against the expectation of incomes from an expanding economy (Waugh 2013).

Social inequality and social costs

According to the World Bank (2005, p. 24), mega-projects and related natural resources have 'put Mozambique on the map'. While changes in social indicators also reveal a positive trend, such as access to lower education and health services, child and maternal mortality and housing quality, there is a need to address some of the shortcomings of the 'trickle-down' development model.

Mozambique is still among the poorest countries in the world. During the last poverty headcount from 2009, 54.7 per cent of the population was living in poverty (below US$1.25 a day).[3] Poverty reduction is still a pressing issue in Mozambique and the high numbers of absolute poor could well continue alongside impressive economic growth if the Mozambican government is not able to improve its institutional capacity to increase tax collection, manage its public debt appropriately and improve its planning for investment. Furthermore, Mozambique's economy has not undergone any significant structural change, despite more than a decade of sustained high economic growth. Mega-projects in coal, gas and aluminium have resulted in large FDI inflows, which have driven economic growth, but not led to economic diversification or had any significant impact on government revenues. This restrains its capacity to reduce poverty and foster human development (OECD *et al.* 2013). The macro-economic successes appear disconnected from the population and have not turned into employment opportunities or reduced income inequality (SIPA 2013). Although job creation and improvement of the agricultural sector are highlighted as crucial in the Poverty Reduction Strategy Paper (IMF 2011), it has largely failed to meet its goals.

Trickle down or trickle out?

Poverty reduction has always been a central part of Mozambique's development strategy documents, but has often failed when translated into practice. Embarking on a development strategy 'going for growth', the state has taken the role of a promoter of economic globalisation. Rather than being a safeguard between local interests and global forces, the state functions as a 'transmission belt' for foreign capital (Söderbaum & Taylor 2001, p. 676).

The focus on mega-projects is seen as one of the reasons why high economic growth has not led to any significant poverty reduction – signifying a lack of pro-poor growth. As mentioned above, the projects are predominantly capital-intensive, meaning that they have a minimal effect on local employment (Robbins *et al.* 2009). They are often far from actually serving any national strategy for development, but are rather established as 'islands of growth' dispatched from broader development goals (Castel-Branco 2008). The overall experience with mega-projects has been disappointing in terms of local jobs and local economic linkage effects (Cunguara & Hanlon 2012). Mozambique has a young and rapidly growing population (two-thirds of the population currently under the age of 25), which is expected to double in size by 2050. This trajectory could intensify the high rate of poverty if employment opportunities are not

created. Mozambique has a large unskilled labour force, potentially competitive in labour-intensive industries. The capital intensity of mega-projects and the extractive sector, however, illustrates the need for policies that prioritise professional technical education responsive to these requirements (SIPA 2013). While the impressive growth rates over the past decades have mainly been due to foreign investments in mineral and energy mega-projects, Mozambique remains largely rural (Cunguara & Hanlon 2012). The economic focus and lack of supporting policies are reinforcing the already high inequality related to income and access to goods and services.

A 'forgotten' rural population?

The focus and favouring of extractive industries creates conflicts of interests between economic strategy and the livelihoods of the population. Resource extraction and industrial development require large areas of land, affecting local farmers and fishermen. While the mining sector is portrayed as the beacon of hope for Mozambique's development, the important subsistence sectors of agriculture and fisheries are largely overlooked (Gqada 2013). Seventy per cent of Mozambique's population is classified as rural in official statistics, and the agriculture sector employs close to 80 per cent of the workforce (Cunguara & Hanlon 2012; World Bank 2005). In reaching the first development goal of reducing absolute poverty, the increase in agriculture and livestock production was seen as the main challenge, being the main source of income generation (MPD 2008). Still, this sector has remained unproductive and subsistence-based. According to ADBG (2011), about 97 per cent of agricultural production comes from 3.2 million subsistence farms.[4] Furthermore, about 36 million hectares of arable land are suitable for agriculture, while only 10 per cent are under cultivation and only 3 per cent are irrigated. While the sector is growing, rates are relatively modest (compared to annual GDP growth of around 7 per cent): 3.4 per cent in 2012, and an estimated 3.7 per cent in 2013 (OECD *et al.* 2013). Parts of this growth can also be attributed to Indian and Brazilian investments (ADBG 2011).

The reduction of absolute poverty from 69.4 per cent in 1996/7 to 54.1 per cent in 2002/3 was due to strong performance by the agriculture sector (MICOA 2012). The reduction has stagnated since then, attributed to slow growth in agriculture productivity, recurrent weather shocks that reduce yields and declining terms of trade due to increases in international food and fuel prices (ADBG 2011; UNDAF 2011). The contribution to the agricultural sector both from government spending and foreign aid remains low. Government expenditure on agriculture is less than 10 per cent of the government budget, which reflects the government's strategy to focus on mega-projects and extractive industries. Foreign aid has, since the early 2000s, mainly been focused on health, education, infrastructure and governance. Although these areas have improved, the most needed developments in order to alleviate poverty are directly related to income, and thus the creation of employment and increased efficiency in the agricultural sector (Cunguara & Hanlon 2012).

Resettlement in distress

> The new house is just a house. I am not that satisfied. What I can say is, what is a house without food? I cannot eat my house.
>
> (Interviewee in HRW 2013, p. 4)

In order to pave the way for the booming of investments in mega-projects and the extraction of coal and other minerals in Tete, numerous households have been resettled since 2009. Companies will continue to resettle several hundred households in the coming years (SIPA 2013). With the scaling up of natural gas exploration, households in Cabo Delgado are also expected to be resettled. Although resettlement is not necessarily an exclusively negative process, it requires a strong regulative framework, inclusive consultation processes and close supervision. However, the Mozambican government had no specific regulative framework regarding resettlements until social protests were ignited in January 2012, which forced a strengthening of the regulatory framework (HRW 2013; SIPA 2013). Although the new regulations aimed at resolving challenges of the past, the experience has been unsatisfactory. Consultations with the affected communities have mainly been information sessions, rather than openings for any dialogue, and promises made have not been documented or followed up (Aaboe & Kring 2013). Families have been resettled in areas unsuited for land cultivation, making them dependent on other income sources or food assistance. Furthermore, when resettled 40 km away from main markets, such alternative income sources are difficult to find. Jobs available by the companies responsible for the resettlements during the construction phase are mostly temporary, and thus not a viable alternative. Unreliable water sources and unsatisfactory housing and infrastructure are other challenges that poor, rural populations face (HRW 2013).

Unfortunately, the new resettlement regulations do not offer sufficient safeguards regarding involuntary resettlement, especially related to public consultation, fair compensation and the improvement of livelihoods. They do not include explicit standards for the quality of resettled land, access to water supply or the timing of resettlements to avoid farming-cycle disruption, and they do not identify the body in charge of the final decision for resettlement. Furthermore, the Council of Ministers approved the regulations without any public consultation with civil society or extractive companies (SIPA 2013).

Exploring the environmental dimension

As coal and gas exploration, and the related industrial developments, are still in the early stages, the environmental consequences of Mozambique's development path are mainly at potential levels. However, there could be large damages related to the path Mozambique has embarked on if not sustainably managed, and Mozambique is poorly prepared (Aaboe & Kring 2013). With unregulated large-scale mining projects, air pollution could pose respiratory risks to communities.[5]

These pollutants may enter streams, causing environmental damage to areas far from the actual mining sites and reducing agricultural productivity. If chemicals are emptied or washed into streams leading to the sea, the effects on the country's wild marine environments could be devastating. Furthermore, gas production may impact marine life and fisheries substantially and in the long term. There are risks of pollution from off-shore drilling, production and transportation, as well as on-shore facilities with potential environmental and health impacts for local communities (SIPA 2013). With a large part of the population dependent on agriculture and fishing for their livelihoods, such adverse environmental effects may worsen already high poverty rates and rural struggles.

In the view of MICOA, one of its greatest accomplishments since its establishment in 1994 has been greater national awareness of environment and sustainable development. They do, however, acknowledge shortcomings related to implementation (MICOA 2012). The majority of Mozambique's population depends on natural resources for their subsistence and income, and the need to address the linkages between use of natural resources and poverty is acknowledged in various development strategy papers (e.g. the (PARP) 2011–2014, IMF 2011). However, there is a general lack of detailed frameworks for securing environmental protection, leaving environmental sustainability largely theoretical. According to Yale University Environmental Performance Index, Mozambique is ranked eighty-ninth out of 132 of the world's 'weaker performers'. With growing international attention and foreign direct investment flowing into Mozambique's coal and gas industry, these threats could be compounded by unsustainable mining practices that could go unchecked due to limited resources for environmental governance and monitoring (SIPA 2013).

Between paperwork and practice

In a report on the Millennium Development Goals, the Mozambican Department of Planning and Development states that they are unlikely to reach the aspects related to Goal 8: Ensuring Environmental Sustainability. The country is to 'integrate the principle of sustainable development in national policies and programmes and reverse the loss of environmental resources … to reduce the loss of biodiversity and achieve significant levels by 2010' (MPD 2008, p. 3). The main challenge here is mainly the lack of political will in monitoring and implementing existing laws and regulations, as well as a strengthening of governing institutions. This mirrors the government's limited capacity in enforcing action to achieve the various goals for improving environmental sustainability.

As mentioned, the government of Mozambique has agreed to a move towards a green economy, which should reduce carbon emissions and pollution and focus on the use of alternative energy and increase in energy efficiency (RoM 2012). This is largely contradictory to the current economic focus, heavily geared towards the extraction of coal and natural gas. To be able to 'green' the economy, Mozambique would need to focus more on its potential in energy production from renewable sources, often neglected in favour of non-renewables.

Although the country has great potential, investments in wind, geothermal and solar power are insignificant in Mozambique today (Cuvilas *et al.* 2010). The policy focus on a green economy comes across as primarily rhetoric rather than part of any development strategy.

The accountability in Mozambican governmental bodies can at best be described as weak (World Bank 2005). Additionally, responsibilities for environmental management are highly dispersed, leading to confusion rather than integration of tasks. They are spread across directorates in the Ministry of Tourism, the Ministry of Agriculture and five environmental units within the Ministries of Agriculture, Energy, Mineral Resources, Public Works and Health. Furthermore, there are seven directorates within MICOA and an International Coordination Department. This approach has led to gaps in the management system and weak implementation (SIPA 2013).

There is a weak link between policy statements and budget allocations in Mozambique, reflecting a lack of political will in changing the development path. The scarcity of financial and technical resources to monitor plans and actions linked to the environment is inhibiting environmental supervision and is viewed as one of the major challenges in implementing environmental policies (Wingqvist 2011). The most important environmental departments are too small and face extreme financial constraints. Only 2.58 per cent of the total state budget and 0.9 per cent of GDP is allocated to environmental management activities, an amount well beneath recommendations from the World Bank (between 1.4 per cent and 2.5 per cent of GDP) (MICOA 2012; Wingqvist 2011). While investments in the extractive sector are booming, resources in environmental monitoring remain low and insufficient to monitor the environmental impact assessments (SIPA 2013).

This is an infamous trait of Mozambican policy making. Since neo-liberal reforms started, the dominant ideology has been that the government should not interfere with business decisions. Castel-Branco (2001) claims that the role of industrial policy has mainly been to inform about government intentions, while the implementation of these is left with the private sector. Furthermore, 'no realistic programme and practical system of implementation, monitoring or evaluation are included' (ibid., p. 163). This is reflected in environmental policies, where laws and regulations are vaguely formulated and lack the needed guidance and a detailed framework to safeguard the environment from rapid energy extraction. The 1997 Environmental Law has improved over the past 15 years, but it does not address the scope of accountability for companies in mitigating or addressing the risks identified. Companies are not prepared to comply with regulations and requirements, and the ministry lacks the ability to inspect the compliance of all investors (SIPA 2013).

Searching for sustainability

In order to enhance economic growth and reduce poverty, Mozambique is determined to make fruitful use of its natural resources. However, further positive

developments necessitate a delicate balance between short-term economic growth and social and environmental safeguards. While the country's economic growth has been impressive, the policy instruments monitoring this growth need to consider both the distributional and the environmental effects in order for Mozambique to be continuing down a sustainable path.

Currently, there are large challenges related to both the social and the environmental dimensions of sustainable development. Social challenges are related to the lack of employment generation in the economic sectors invested in, an unwillingness to realise that the livelihood of most Mozambicans remains dependent on inefficient agriculture and unsatisfactory management of resettlement issues. Management and governance are the main concerns regarding environmental sustainability. Although laws and regulations are available on paper, the management capacity to implement and safeguard them, or sanction substandard behaviour, is not. These issues reflect a lack of political will to potentially slow down economic growth and thus desired broader developments. As Bøås discusses in Chapter 14, environmental issues are seen as something the African continent cannot afford to focus on, regardless of increased awareness.

In the wind of change and success, and the focus on *Emerging Africa* (see Chapter 1 and 14 in this volume for discussion), one tends to forget that the Mozambican economy remains small. In spite of developments within mining and gas exploration, the degree of economic diversification is low, reflected by a high concentration of exports in just a handful of products. Although the main exports could be changing after 2018, aluminium accounts for almost 56 per cent of the country's total exports (ADBG 2011). Furthermore, the majority of the population is excluded from economic improvement and instead experience negative side-effects of mega-projects and foreign investments. The above-mentioned constraints in collecting taxes from private companies operating in the mining sector also challenge possibilities for redistribution of natural resource wealth and can potentially lead to social unrest. Mozambique's development path is largely dependent on both FDI in natural resources and foreign aid, with few links between economic growth, job creation and poverty reduction.

Returning to the chapter's initial question of how the dimensions of sustainability are safeguarded in Mozambique's development path, it is evident that a general lack of public information, weak civil society and low state capacity are challenging sustainable development. It is, however, hard to predict the continuation of Mozambique's infant economy. As noted by Castel-Branco (2001, p. 163), the country seems caught in a 'tension between laissez-faire ideology and the demand of equitable and sustainable development'. While one can say that sustainable development to a certain extent is safeguarded on paper, state capacity and political will to implement and monitor it can be questioned.

Notes

1 In addition to China and India, South Africa and Brazil are important players in Mozambique's coal and gas industries, together with the USA and Italy.

2 USA, Russia, Canada, Iran (and Norway, but with lower domestic demand) (Bhattacharyya 2011).
3 http://data.worldbank.org/country/mozambique (viewed 6 December 2013).
4 Subsistence farms in Mozambique average 1.2 hectares (ADBG 2011).
5 Air pollution refers to, for example, dust, SO2, lead, arsenic and other particles and gasses.

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17 Botswana's developmental state

Sustainability under threat?

Ian Taylor

At independence in 1966, the population of Botswana was just over half a million people, living in a country the size of France. The country possessed six kilometres of tarred roads, three secondary schools and six university graduates, and the capital had to be relocated from Mafeking (remaining in South Africa) to Gaborone to make it inside the actual borders of the new nation. Botswana was then the second poorest country in the world, with a GDP per capita of about US$70 (*Sunday Standard* [Gaborone] 2013). Surrounded by hostile minority-ruled states, the small state was hardly a candidate for anything other than failure; yet its relative success had confounded predictions. This chapter seeks to understand why, as well as the rather successful way in which the state has managed the issue of the sustainability of the country's developmental trajectory.

Botswana as a developmental state

Botswana is famed for its diamond resources and it is true that the revenues from diamond extraction have powered the country's growth. Since independence, the country has had the highest average economic growth rate in the world, averaging about 9 per cent per year between 1966 and 1999, after which it was adversely affected by the Asian financial crisis, only to recover and then be hit by the 2008 global crisis, as shown in Table 17.1.

In absolute terms, the per capita wealth of the average citizen in Botswana has increased substantially since the early days of independence.

Though such figures as shown in Table 17.2 are impressive, they do mask a constant reality within Botswana, namely that, though the country is considered to be one of the best performers in Sub-Saharan Africa,

> not all of Botswana's policies promoted inclusive growth and human development in a broad-based manner. Poverty and inequality remain high, and the shortcomings of labour market policies are evident with an unemployment rate of about 18 percent. Botswana's income inequality, with a Gini Index in excess of 0.5, is one of the highest in the world especially when compared with other high middle-income countries.
>
> (IMF 2012, p. 4)

However, it remains the case that:

> Botswana's prudent management of its vast diamond resources stands out in Africa as an exemplary case of harnessing natural resources effectively and efficiently for human development.… It has avoided the 'resource curse' that tends to characterise other countries endowed with natural resources.… More importantly, it is commendable that the government has recognised that its diamond resources cannot last forever, and has thus, since 1968, endeavoured to put in place appropriate policies to prepare for the depletion of its mineral base. To this end, main actions have involved accumulating funds for the future, building infrastructure, and investing in health and education. These policies have left the government in a relatively strong position to facilitate a soft landing once the diamond reserves are depleted, possibly by 2029.
>
> (OECD *et al.* 2013, p. 3)

Table 17.1 Botswana: annual GDP growth since independence

Year	%	*Year*	%	*Year*	%	*Year*	%	*Year*	%
2011	6.1								
2010	8.6	2000	5.9	1990	6.8	1980	12.0	1970	17.1
2009	8.2	1999	5.1	1989	13.1	1979	12.1	1969	15.1
2008	3.7	1998	10.6	1988	19.4	1978	14.3	1968	10.6
2007	8.9	1997	10.2	1987	11.9	1977	12.0	1967	5.9
2006	5.1	1996	5.6	1986	8.2	1976	10.6	1966	6.3
2005	1.6	1995	4.4	1985	7.1	1975	8.4		
2004	6.0	1994	3.6	1984	8.5	1974	8.8		
2003	6.3	1993	1.9	1983	13.1	1973	21.3		
2002	9.0	1992	2.9	1982	12.2	1972	26.4		
2001	3.5	1991	7.5	1981	9.1	1971	25.8		

Source: UNdata.

Table 17.2 Botswana: GDP per capita (US$, 1970–2011)

Year	$	*Year*	$	*Year*	$	*Year*	$	*Year*	$
2011	8,533								
2010	7,427	2000	3,204	1990	2,688	1980	854	1970	96
2009	5,822	1999	3,395	1989	2,248	1979	619		
2008	6,877	1998	3,183	1988	1,372	1978	493		
2007	6,422	1997	3,112	1987	1,221	1977	431		
2006	5,921	1996	3,006	1986	915	1976	347		
2005	5,468	1995	2,990	1985	707	1975	333		
2004	5,425	1994	2,750	1984	846	1974	297		
2003	4,419	1993	2,706	1983	836	1973	221		
2002	3,369	1992	2,773	1982	797	1972	155		
2001	3,381	1991	2,712	1981	942	1971	123		

Source: UNdata.

This reality can be seen in the relative strength of Botswana's development progress when looked at through the lens of adjusted net savings. Adjusted net saving is derived from the standard national accounting measure of gross saving by making four adjustments: (i) consumption of fixed capital is deducted to obtain net national saving; (ii) current public expenditure on education is added to account for investment in human capital; (iii) estimates of the depletion of a variety of natural resources are deducted to reflect the decline in asset values associated with extraction and depletion; and (iv) deductions are made for damages from carbon dioxide and particulate emissions. The indicator is then computed by dividing adjusted net savings by gross national income and is expressed as a percentage. This will be returned to below.

Obviously, an abundance of mineral wealth on its own explains nothing in looking at Botswana's success: as the case of Sierra Leone demonstrates, natural resources may in fact sabotage nation-building and development. As Leith (2000, p. 4) writes, 'the growth of the Botswana economy is not simply a story of a mineral enclave with an ever growing government, attached to a stagnating traditional economy'. Botswana in fact is frequently cited as a counter-example to the theory of the 'natural resource curse': 'Rather than generating avenues for corruption and irresponsible fiscal spending, Botswana has instead kept careful control of its foreign exchange and inflation, and has preserved a sound governance record' (OECD 2013, pp. 13–14).

There is of course a major problem in defining a developmental state simply from its economic performance; not all countries with good growth rates are developmental states. As Mkandawire (1998, p. 2) remarks:

> the definition of the 'developmental state' runs the risk of being tautological since evidence that the state is developmental is often drawn deductively from the performance of the economy. This produces a definition of a state as developmental if the economy is developing, and equates economic success to state strength while measuring the latter by the presumed outcomes of its policies.

Bull's discussion of developmental states in Chapter 2 (this volume) is thus a very helpful point of departure.

Following this, in Botswana there has been a definite commitment by the state to pursue development (Taylor 2012). This goes back to the first presidency of Sir Seretse Khama, who was conscious of developing a relative backwater of the British Empire. This developmental ethos was accepted and advanced both by the political and bureaucratic elites and by the institutions that they built up, echoing Ha-Joon Chang's argument that a developmental state should act as an entrepreneurial agent whilst engaging in institution- and capacity-building (Chang 1999). Certainly, the robustness and levels of capacity of state institutions in other developmental states have been crucial.

In 1981, Botswana's then Minister of Finance and Development Planning, Peter Mmusi, spoke of the need for a

> purposeful government which acquires the expertise to deal with companies on its own terms … the important word is purposeful – and I believe our government has been able to put together strong negotiating teams, has backed them up with well-worked out negotiating mandates, and has then overseen the implementation of our major mining agreements with detailed care as well.
>
> (quoted in Harvey & Lewis 1990, p. 119)

Attempting to account for how and why a disciplined and competent state apparatus emerged post-independence is what we shall turn to next.

Explaining the 'miracle'

Explanations and accounts of Botswana's development trajectory are diverse. One school of thought may be called the 'African Miracle' school, which is mainly positive and largely economistic in its approach and misses the inherently *political* nature of Botswana's post-independence experience. Though of course this 'school' is varied, it does in the main approach Botswana's post-independence from a largely uncritical stance, asking whether Botswana is indeed 'A Model for Success?' (the sub-title of Picard 1987). Those working more from a political economy perspective have been more critical. Such analysts do, of course, acknowledge the country's rapid economic growth and efficient state machinery, as well as the long-running liberal democracy. However, they are more critical of the profound contradictions that have developed alongside Botswana's developmental trajectory (see Taylor 2003). Such a position questions a situation where there is 'Poverty in the Midst of Plenty', blaming it on deliberate policy choices made as part of the developmental state project (Gulbrandsen 1996).

For instance, Samatar is critical of the social polarization and disparities of income within the country, whilst arguing that 'a key force that distinguishes successful from failed states is the social chemistry of the dominant class and the discipline of its leadership' (1999, p. 6) and asserting that Botswana's wealth grants the elite a certain space that can be used in order to resolve the more iniquitous inequalities, through determined policy choices and implementation.

One of the key explanations for Botswana's development trajectory has been the commitment to development and the willingness to articulate a national vision for development by the elite or 'a national perspective that will carry the national psyche to a level of providence, with a sense of future, so as to define its ambition or desired level of progress' (Robi 1994, p. 487). The centrepiece of the state's development efforts since the inception of the first National Development Plan (NDP) from 1968 to 1973 has been to raise the standards of living of the population of Botswana. In line with this, development plans have been guided by the planning objectives of sustainable development, rapid economic growth, economic independence and social justice (Republic of Botswana 1997a). This is explicitly stated and indeed the current (tenth) NDP has an

entire chapter on sustainability, where the state will play the 'role of facilitator, in partnership with the private sector, to create an environment where business and entrepreneurial activities are encouraged and supported' (Republic of Botswana 2007, p. 131). The NDPs have the added advantage of granting policy implementers a great degree of space between them and the politicians. Thus a technical document, drafted by experts and then approved by elected representatives, serves as the blueprint for government policy. 'Once the new plan is approved, politicians' proposals not in the plan are turned aside on the grounds that only emergency measures can be adopted until the next plan is formulated' (Molutsi 1989a, p. 112). Botswana thus echoes the developmental state of Johnson (1981, p. 12) where 'the politicians reign and the state bureaucrats rule'.

In addition, and in a conscious imitation of another developmental state's Vision 2020 (namely Malaysia), a Presidential Task Group produced a document entitled 'A Framework for a Long Term Vision for Botswana'. The 'Vision 2016' is supposed to be a national manifesto to guide future NDPs as well as broad government policy, and is a statement of long-term goals together with proposals for a set of strategies to meet them (Republic of Botswana 1996, 1997b). According to Mkandawire (1998, p. 2):

> it is this ideology-structure nexus that distinguishes developmental states from other forms of states. In terms of ideology, such a state is essentially one whose ideological underpinning is 'developmentalist' in that it conceives its 'mission' as that of ensuring economic development.

Meredith Woo-Cumings has argued that nationalism and a national vision lies at the heart of a developmental state (1999, p. 8) and 'in many respects development has been Botswana's ideology' (Lewis 1993). As Sir Seretse Khama argued:

> When we attained independence in 1966 we had no economic base from which to proceed with the development of our country. Our chances of survival as a viable country were almost nil but we were not discouraged nor could we ever willingly return to the old days of colonial neglect. Having accepted the challenges of independence we had no other alternative but to get down to work to make our independence a meaningful one.
>
> (Khama 1980, p. 323)

In specifically understanding Botswana as a developmental state, Samatar argues that the Botswanan elite has successfully utilized the receipts from the country's diamonds to expand the state as a facilitator (or 'entrepreneurial agent'). The state has not shied away from an active involvement in promoting the market. Pilot institutions have been built to stimulate growth in the private sector, the Botswana Development Corporation being a prime example. Botswana Development Corporation Limited (BDC) was established in 1970 as Botswana's

main agency for commercial and industrial development. All its ordinary shares are owned by the government of Botswana. The BDC's primary objective is to assist in the establishment and development of commercially viable businesses in Botswana. Its roles include the provision of financial assistance to investors with commercially viable projects, building partnerships with investors capable of creating and growing commercially viable businesses, and supporting projects that generate sustainable employment for Botswana. An important aim of the BDC is to encourage citizen participation in business ventures (see Botswana Development Corporation 1985, 1995, 2000).

Similarly, the Botswana Export Development and Investment Authority (BEDIA), set up by the government in November 1997, is designed to promote investment into Botswana with special emphasis on export-oriented manufacture; to identify market outlets for products manufactured in Botswana, and construct factory buildings. Reflecting the close links between the public and private sector, the board of directors of BEDIA is made up of private sector representatives alongside representatives from the Ministry of Commerce and Industry and the Ministry of Finance and Development Planning.

Regarding the role of the bureaucracy in Botswana's developmental state, the country possesses an effective and competent bureaucracy that has been able to implement policy directives without miring itself and the country in over-expenditure and other pitfalls associated with many other such apparatuses, particularly in Africa. Expatriates were retained (as opposed to much of the rest of Africa) in order to help train up a local but competent and educated civil service – symbolically, for a number of years the head of the civil service was a white Kenyan. Because of the lack of education afforded to local Botswana under the colonial period, this gradualism was necessary. The local cadre of bureaucrats thus underwent a period of tutelage and learning that has enabled them to gradually – and smoothly – take over the running of the country. Now, the Botswanan civil service has a 'proven capacity to take preemptive policy action and generally pursue policies in the long-term interest of the country' (Charlton 1991, p. 265). Combined with well-trained and well-educated Botswanans with a low tolerance threshold of corruption, this means that the bureaucracy in Botswana is a tool rather than an obstacle for development. Furthermore, linking Botswana's bureaucracy with the developmental state literature on the autonomy of the bureaucracy, du Toit (1995, p. 121) asserts that:

> [T]he autonomous bureaucracy, in coalition with the ruling Botswana Democratic Party has succeeded through its technocratic priorities of growth and stability (at the expense of participation and equity), in establishing a solvent enough state which is able to deliver public goods (roads, schools, watering facilities, clinics etc.) on a non-tribal, non-regional basis, so as to ensure that the minimum requirements of jointness of supply and non-excludability are met. Ensuring that the state is seen as neutral, not as an ethnic body … contributes to its legitimacy and that of the regime.

According to Maundeni (n.d., p. 10), 'Botswana has maintained a strong and relatively autonomous and effective bureaucracy by insulating the planning bureaucrats from societal pressure, employing expatriates and by targeting the training of locals'. 'In practice the civil service, not the political leadership, has dominated policymaking' (Somolekae 1993, p. 116). The autonomy of this bureaucracy was of course socially anchored within the wider milieu of webs and networks that linked the cattle-ranchers, politicians and bureaucrats together. This sort of 'embedded autonomy' (Evans 1995) characteristic of developmental states created a dynamic interaction between the various (cross-cutting) groups that stimulated policies favourable not only to the elites themselves but also to development. Clearly, developmental states must be involved in a network of ties that secure them to groups or classes that can become allies in the pursuit of societal goals. What has occurred in Botswana is a typical developmental state situation where the bureaucracy and the ruling party mesh. Evidence to confirm this is 'the commonness of the recruitment of senior civil servants directly not just into the ruling party politics but into senior government posts' (Charlton 1991, p. 283). The classic example was previous President Festus Mogae, who has variously been Planning Officer, Director of Economic Affairs, Alternate Governor for Botswana at the IMF, Governor of the Bank of Botswana, Permanent Secretary to the President, Secretary to the Cabinet, Minister of Finance and Development Planning and finally Vice-President in 1992 before taking over the presidential reins in 1998.

When talking specifically of rural development, 'the critical debate on a policy takes place within the government, not in parliament or in public discussion … it is dominant ministries which shape policy outcomes' (Holm 1985, p. 175). Molutsi (1989b, p. 126) has gone further to assert that:

> Without denying that important government policies benefit the rich and influential sections of society … the state is not *sui generis* an instrument of local shopkeepers and cattle owners. Instead it is capable because of its relative autonomy from the major classes in society of concurrently advancing accumulation programmes in favour of the propertied classes on the one hand and welfare programmes for the poor masses on the other. The latter especially is important if the state is to establish itself as legitimate for the entire population.

It can be argued that the embedded autonomy of the bureaucracy and diverse ministries have thus served Botswana well, cushioning policy from special-interest lobbying, though perhaps at a cost of the democratic accountability of the bureaucracy (Good & Taylor 2008). The limitations placed on organized labour (in particular, in the name of nation-building) have been highlighted by some observers (Mogalakwe 1997). Having said that, as in other developmental states, social engineering is integral to the project. This has been facilitated in Botswana by civil society being poorly developed and disorganized, and democratic input weak in any case (Molutsi & Holm 1990). The fragmented

opposition in particular has meant that the BDP has enjoyed hegemonic – if not wholly unchallenged – status since independence.

Freed from such diverse pressures emanating from below, the bureaucracy has served a crucial role and it is true that 'the government [has] invested heavily in infrastructure, health and education and attempted to foster industrial development. The key to all this was the creation of a meritocratic bureaucracy and extensive state capacity' (Acemoglu *et al.* 2001, p. 29). Consequently, 'public sector development administration is at once broader and more focussed than traditional public administration because the state itself serves both as the engine of growth within the economy and as the primary source of social development nationally' (Edge 1998, pp. 336–7).

Following on from this, parastatals have been created in a country that lacks sufficient local capital – the most notable examples being Botswana Power Corporation, the National Development Bank, Botswana Railways and the Botswana Development Corporation. In order to finance these, the government created a mechanism whereby funds are transferred out of the Consolidated Fund into three special funds, namely the Domestic Development Fund, which is the state's own contribution to capital projects as opposed to donor aid; the Revenue Stabilization Fund, which absorbs short-term revenue increases and is used to provide short-term funding to parastatals and local government; and the Public Debt Service Fund, which provides long-term funding to parastatals. This mechanism controls excess spending by central government. Hudson (1991, p. 57) has written that 'the government has had mixed success with these loans, from a credit worthiness point of view. From a development point of view however, they have been a great success.'

Sustainability in question

However, whilst the stability and demonstrable improvements in the life chances of its citizens since independence have been commendable, the issue of sustainability is crucial. Sustainable development requires that the depletion of mineral assets be offset by a compensating increase in other forms of capital. This is especially so in a country such as Botswana, which is almost entirely dependent on its mineral wealth. Indeed, Botswana's post-independence rise has been built on non-renewable extraction.

Obviously, GDP is not calculated making deductions for the depreciation of fabricated assets or for the depletion and degradation of natural resources. Thus a country can have very high growth rates calculated using GDP indicators, whilst embarking on a short-term and unsustainable exploitation of its finite resources. Consequently, the idea of genuine savings traces its roots back to the work of economists such as Robert Solow (1974) and John Hartwick (1977), whose work sought to model a development path where social welfare did not deteriorate in economies based on the exploitation of non-renewable resources. Genuine savings (or adjusted net savings) thus measures the true rate of savings in an economy after taking into account investment in human capital, the

decline in asset values through the extraction of natural resources and damage caused by pollution. Solow (1974) and Hartwick (1977) derived the conditions necessary for economic sustainability in an economy dependent on a non-renewable resource, like minerals. The Solow-Hartwick rule requires nondeclining total wealth, to be achieved by reinvesting all the rents from the non-renewable resource in other forms of capital (assuming that resources are priced efficiently). Adjusted net saving provides a measure of a country's sustainability by measuring the change in comprehensive wealth. Specifically, it presents a device to check the extent to which rents from natural resources (i.e. changes in the natural capital of a country) and changes in human capital are offset by net savings (i.e. changes in man-made capital). If a country's net saving is positive, the value of social welfare is increasing, whilst persistently negative adjusted net saving indicates that an economy is on an unsustainable path.

With regard to Botswana, the World Bank has commended the country for investing significant parts of mineral revenues in education, health care and other forms of asset formation, leading to a high net genuine savings ratio (World Bank 2006). The value of a country's capital assets constitutes its wealth, and no economic activity can take place without capital. The earlier quoted World Bank study (2006) distinguishes three types of capital: produced, natural capital and intangible capital (skills and institutions). All three capital sources are essential. Natural capital tends to be most significant for developing countries (primary production sectors), but intangible capital is most important for broad-based growth and industrialization. When looking at Table 17.3, the adjusted net savings of Botswana, certainly in comparison with other mineral-rich African countries (i.e. countries in Africa with total natural resources rents higher than 25 per cent of GDP), Botswana has a positive profile.

The developmental state crafted after independence accounts for such a contrast between Botswana and other resource-rich nations in Sub-Saharan Africa. Whilst the others have all succumbed to rampant corruption and malgovernance,

Table 17.3 Adjusted net savings, selected mineral-rich countries

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Botswana	**5.61**	**5.61**	**5.61**	**5.61**	**5.61**	**8.47**	**8.47**	**6.58**	**6.58**
Angola	–32.75	–51.68	–34.82	–36.06	–34.66	–31.66	–17.91	–23.94	–42.63
Chad	0.58	–1.00	–49.40	–9.34	–36.37	–37.06	–30.08	–43.39	–49.89
DRC	–12.51	–10.33	–4.05	0.21	–4.44	–3.53	–7.25	0.71	–2.49
Congo-B	–40.75	–45.27	–33.68	–52.61	–38.98	–59.20	–82.93	–58.22	–57.11
Eq. Guinea	–7.08	–66.01	–58.65	–83.66	–111.79	–75.14	–60.32	–48.90	–38.45
Gabon	0.13	2.56	0.12	4.76	4.41	9.93	–2.64	4.78	3.56
Mauritania	–15.12	–5.48	0.83	–4.91	–8.23	–29.08	6.55	5.26	–
Zambia	–9.73	–9.24	–1.51	3.63	1.32	4.71	4.13	0.57	–0.71

Source: World Bank (2014).

Note
Nigeria does not have any statistics on adjusted net savings.

the same cannot be said for Botswana. Although corruption is not unheard of in the country, it has by no means become entrenched nor achieved the predatory nature as found in almost all other resource-rich African countries. This is at the heart of the perceived 'success' of Botswana and often obscures the levels of inequality which weaken the overall notion that the country might be a model.

Concluding remarks

Botswana is not some sort of utopia in the Kalahari. The country faces serious problems related to equity within society. It can hardly be said that everyone has benefited meaningfully from raised incomes or higher standards of living, despite the extensive provision of health and education facilities as well as access to potable water and a decent transport infrastructure. As Picard has pointed out, 'the primary beneficiaries of government policy in the areas of economic and rural development have been the organizational elites, bureaucratic, professional and political, who dominate the system' (Picard 1987, p. 264).

Although Botswana is a 'cattle country', this obscures the fact that almost half of all Botswanans own no cattle at all, with less than 10 per cent of the population owning about 50 per cent of the country's cattle. These cattle barons have benefited from government policy on beef, although the receipts from meat exports do also go into state coffers. Samatar and Oldfield (1995, p. 661) consider that the Botswana Meat Commission, which manages the country's beef industry, 'has nurtured the collective interest of the dominant strata while providing services for the many small producers'. Four out of five rural households survive on the income of a family member in town or abroad. 'That still leaves a significant number of rural households, usually female-headed, with no source of income known to statisticians' (Parsons 2000).

The creation of a more equitable society and the fairer distribution of resources is now Botswana's greatest developmental challenge, which will define the success or otherwise of the post-independence project. A less elitist and more egalitarian dimension to Botswana as a developmental state is urgently required. Although some of the inequality in the country is due to specific policy choices, it is also true, as Tsie (1998, p. 15) points out, that:

> some of the contradictions of Botswana's development policy are rooted in the capitalist system that the country has followed.... Here one has in mind the tendency of capitalist economies to generate severe income inequalities in the early stages of their development.

Now that Botswana has established the fundamentals of a working bureaucracy and excellent infrastructure with a large amount of foreign reserves, a more proactive stance on inequality should be put in place (see Botswana Institute for Development Policy Analysis 1996).

The commitment to development then by both the political and the bureaucratic elites is central, but not enough. Plenty of African states have been

developmental on paper, but very few indeed have been successful. What seems to have separated Botswana from other African states is the strategy of putting into place institutions that have helped sustain growth. This has been part of a broader national developmental vision that has sought to coordinate investment plans. With the state acting as an entrepreneurial agent, there has been, to varying degrees, coordination between the private and the public sectors – the parastatals being a prime example. According to Edge (1998, p. 334):

> In Botswana, the developmental state is based on a foundation of capitalism in which the government, through a wide variety of incentives, actively promotes private investments by national and multinational corporations, while creating profit-based public enterprises and investing directly in private firms.

All this has been facilitated by an efficient and well-trained bureaucracy that has resisted the descent into corruption that has been the hallmark of much of the civil service in other parts of the continent. Indeed, skills development, not only in the bureaucracy but also in the wider private sphere, has been an important aspect of Botswana's success – the National Productivity Centre, which came about after fact-finding missions to Malaysia and Singapore, being a prime example.

Despite the criticism of inequality within the country, it is still true that 'state intervention can play a vital role in creating the conditions for sustained trade growth and in ensuring that trade expansion translates into poverty reduction – as the examples of both Botswana and Mauritius in Africa have demonstrated' (Carroll & Carroll 1997). The developmental state in Botswana *has* achieved respectable accomplishments; it may even be argued that Botswana's strategy has shown that 'a disciplined activist African state that governs the market is essential for industrial development and recovery' (Owusu & Samatar 1997, p. 270). In this sense, the lessons that states may pick up from the Asian experience, namely the construction of 'local counterparts to the proximate institutional prerequisites of East Asian success – bureaucracies with a capable economic core and government-business relations based on scepticism combined with communication and support in return for performance delivered', might also be applied to Botswana's case (Evans 1998, p. 83). The assessment seems correct that:

> Botswana [has] defied the thrust of prevailing development orthodoxy, which claims that African states cannot enhance industrial development through interventionist strategy. Botswana's state-governed industrial strategy supports recent research on the 'East Asian miracle', which underscores the fundamental importance of state intervention in industrial transformation.
>
> (Owusu & Samatar 1997, p. 289)

Equally, the 'primacy of politics' in the complex process of development has been fundamental and decisive (Leftwich 2000), inferring that it is not *how much* state intervention should take place, but rather *what kind*.

Obviously, the very different historical and cultural contexts from which various development experiences have evolved make direct comparisons and borrowing of models problematic (Clapham 1996). Developmental states cannot, as Leftwich (2000, p. 169) points out, 'be had to order'. Nonetheless, there is such a thing as a broad developmental state model that helps account for the relative success not only of Taiwan or Singapore, but also of Botswana; and the possibility of more developmental states on the continent should not be written off (Stein 2000). As Peter Evans (1998, p. 83) has written:

> in the best of all possible worlds, African and Latin American countries would follow the lessons generated by the East Asian experiences in the same way that East Asian policy-makers followed western models of capitalism: with such originality and inventiveness as to outperform the original. Hopefully the art of leapfrogging is not yet dead.

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18 Ethiopia

Rapid and green growth for all?

Axel Borchgrevink

Ethiopia is one of the poorest countries in the world. At first sight, it does not seem to make much sense calling it an emerging economy. However, due to its size and strategic location, the country is the regional hegemon on the Horn of Africa, and it has been a key African ally in the 'Global War on Terror'. Moreover, the country has shown impressive growth over the last decade or so, for many years in the double digits. While statistics are uncertain, this growth appears also to have resulted in considerable poverty reduction. Building on and seeking to extend this rapid growth, Ethiopia's strategic ambition is to become a middle-income country by 2025.

Of particular interest is the fact that this target is supposed to be achieved in an environmentally sustainable way: The 2025 objective also includes becoming carbon neutral. Large-scale hydropower development, to deliver 'clean' electricity inside and outside national borders, is a key element in the strategy. Thus, in the government's self-presentation, there are no trade-offs between growth, the environment and a poverty orientation (Federal Democratic Republic of Ethiopia, 2011b).

However, more critical voices point out that Ethiopia's authoritarian development model comes at the cost of civil and democratic rights and question the validity of past growth figures and prognoses for the future. Furthermore, it is argued, large-scale development projects, whether hydroelectric or agricultural, very often involve the displacement of local land users, and may also have significant negative environmental impacts. This chapter explores these issues. It starts with a discussion of why Ethiopia can be understood to be an emerging economy. The following two sections analyse the development model the Ethiopian regime has been following since coming to power in 1991, and its recent strategy for a green economy. The realism of different claims – to continued growth and poverty reduction, and to environmental sustainability – are then discussed. The conclusion seeks to sum up what the Ethiopian development consists of, and how it should be assessed.

Why would one call Ethiopia an emerging economy?

I was surprised when the editors asked me to write a chapter on Ethiopia for this book. Not because I viewed Ethiopia as difficult to fit within the category of

emerging economies. For those of us with a special interest in Ethiopia, such a designation points directly to important aspects of Ethiopia's recent development. Also, it fits very well with Ethiopian self-perceptions, or at least with those of its power-holders. However, the notion of Ethiopia as an emerging economy contrasts strongly with the common depiction of Ethiopia, which is of a country mired in bottomless poverty. This common view is far from ungrounded: The country's 2011 GNI per capita of US$370 places the country as number 161 of 167 on the World Bank's ranking, and is considerably lower than the regional average for Sub-Saharan Africa of US$1,258.[1] While poverty rates – 30.7 per cent at 'less than US$1.25/day' and 66 per cent at 'less than US$2/day'– are lower than in several other countries in the region, food insecurity remains very high. Estimates suggest that more than eight million people annually depend on food aid to cover food shortages, close to 10 per cent of the population (Aschale *et al.*, 2012). In crisis years – such as under the regional drought of 2011 – the figure is substantially higher. Around 83 per cent of the population live in rural areas, and agriculture contributes 48 per cent of GDP (the highest share in the world), compared to just 10 per cent from industry (Dorosh & Schmidt, 2010). The number of Internet users is reported to be only 1.5 per 100 inhabitants.[2] So Ethiopia is very far from being a newly industrialised country.

But while Ethiopia is undoubtedly a poor country, it makes sense to discuss it as an emerging economy for at least two reasons: The impressive growth rates the country has achieved over the last decade or so, and the important roles it plays on international arenas.[3] Since the beginning of the new millennium, Ethiopia has been among the countries with the highest growth rates in the world. Between 2000 and 2011, GDP rose from US$8.0 billion to 30.2 billion, with an average annual growth of 9.3 per cent. Even accounting for population increase, the annual GDP growth *per capita* over the period was a hefty 6.8 per cent. Growth showed some indications of flattening out in 2011, with a GDP growth of 7.3 per cent.[4] Still, Ethiopia's five-year strategy for economic development, its Growth and Transformation Plan (GTP), foresees continued high economic growth, resulting in Ethiopia becoming a middle-income country in 2025 (Federal Democratic Republic of Ethiopia, 2010). A recent World Bank report – with the subtitle *Laying the Foundation for Achieving Middle Income Status* – seeks to advise on how this goal can be achieved (World Bank, 2013). So in a very concrete sense, Ethiopia may actually have an emerging economy.

Moreover, Ethiopia is an important actor on the international arena. By its size alone, the country is the sub-regional hegemon of the Horn of Africa, and, as the second-most populous country on the continent, it carries a lot of weight in African affairs. Its history of never having been colonised has given it the role of host to the African Union, and thereby a crucial role within the organisation and continental politics in general. It is the largest African contributor to UN peacekeeping missions, and plays crucial roles for the political development in the neighbouring hotspots of the Sudans and Somalia. Furthermore, Ethiopia has been a key ally of the US in its 'Global War on Terror'. Ethiopia's

invasion of Somalia in 2006 was primarily caused by its own security interests of removing what was perceived as a fundamental Islamist government with designs on fomenting revolt in Ethiopia's Somali region. But the invasion was also encouraged by the Bush government and aided by US intelligence and surveillance support. In spite of growing concerns among Western countries over increasing authoritarian tendencies in Ethiopia, Meles Zenawi, head of the Ethiopian government from 1991 until his death in 2012, played an assertive role in international processes. He was a member of UK Prime Minister Blair's Commission for Africa, and has been an active representative of the African caucus in global climate change negotiations. Therefore, while not quite a BRICS country, Ethiopia is an important player on the international arena.

The Ethiopian development strategy

The current Ethiopian regime came into power in 1991, when the *Derg* dictatorship was toppled by a strategic alliance of guerrilla armies, among which the Eritrean People's Liberation Front (EPLF) and the Tigray People's Liberation Front (TPLF) were the strongest. For the EPLF, independence for Eritrea was the prize, while the TPLF was and has continued to be the dominating force within the Ethiopian People's Revolutionary Democratic Front (EPRDF), which has held a tight grip on political power in Ethiopia since.

The new regime faced serious challenges. On the political front, governing a huge and weakly integrated country was no simple task. The EPRDF opted for an innovative model of ethnic federalism, giving considerable autonomy (at least on paper) to the new regions whose borders were redrawn to correspond to ethnic divisions. While the intention was to reduce tensions between ethnic groups – in part as a response to Tigrayans' feelings of marginalisation under the former Amhara-dominated regimes – many would agree that it has had the opposite effect. When the Tigray people – who only make up 6 per cent of the population – dominate government, this creates resentments. Moreover, with a political system built on ethnic entitlements, competition between ethnic groups is stimulated rather than relieved.

Competition and conflict are exacerbated by the fact that ethnic groups do not live in neatly separable territories; there are significant minorities in all regions. Multiparty elections that became gradually more competitive in the period up to 2005 were indications that the country was slowly developing towards democratic governance. However, after the 2005 elections – when a united opposition for the first time mounted a real challenge to the sitting government – the government brutally closed down this opening by killing around 200 demonstrators and jailing thousands. Since then the government has strengthened its hold over the electoral process, through new laws restricting the media and civil society's freedom of expression and by using government resources and power to influence voters and intimidate the opposition. In the 2010 elections, EPRDF and its allied parties won 545 of 547 parliamentary seats and all but one of the 1,904 council seats in the regional elections.

On the economic side, the challenges in 1991 were equally great, after a long and devastating civil war. Poverty and dependence on food aid were endemic; education levels low; the economy was dependent on rain-fed agriculture, but environmental degradation, land scarcity, simple technologies and frequent droughts meant that productivity was low; there was little industry; infrastructure, roads and transport were deficient; and the secession of Eritrea meant that Ethiopia lost access to the sea (and after the outbreak of the war with Eritrea in 1998, also the use of Eritrean harbours). Given the fact that Ethiopia is one of the least urbanised countries in the world, agricultural and rural development has naturally been a centrepiece of its development strategy, dubbed Agricultural Development-Led Industrialization (ADLI). It has been geared at strengthening agricultural productivity and promoting linkages to other sectors of the economy, including industrial processing of agricultural products. Thus, great efforts have been made to introduce improved technologies, restore soil fertility and stimulate the commercialisation of produce. Huge investments have been made in infrastructural development; roads and transport in particular. Formerly remote regions and areas of the huge country have been tied closer to the centre with a greatly improved network of roads, and after the loss of the use of Eritrean harbours, cross-border trade is facilitated by the establishment of new transport routes, including the current construction of the railroad to Djibouti. The energy sector has also been prioritised, with large investments in hydropower.

Controversially, the government also initiated a resettlement programme, moving people from the land-scarce central highlands to the lowlands, where there allegedly is an abundance of land. Furthermore, while the main emphasis of agricultural policies has been to support the small-scale peasant production that dominates the Ethiopian countryside, stimulating large-scale commercial agriculture has increasingly entered the agenda. Since 2006, the government (which is the owner of all land) has given considerable areas to (mostly) foreign investors, in particular in the peripheral lowland regions, with the intention of expanding these areas of large-scale commercial agriculture. Some observers have pointed to a two-track model for agricultural development: small-scale family farming in the highlands (which include the areas of the regime's political base) with large-scale commercial agriculture in peripheral lowland areas (Makki & Geisler, 2011). As these areas are rarely as unused as claimed, critics usually refer to these developments as land grabbing. Particularly affected by this are the pastoralist groups of the lowlands, whose land use rights are seldom taken into account. From the government's point of view, they represent an inefficient way of production for which Ethiopia has no room in the mid-to-long term perspective.[5]

A characteristic of the Ethiopian developmental model is the central role played by the state. This is reflected in the very high levels of public investments: at 18.6 per cent of GDP, this is the third highest rate of public investment in the world. Conversely, Ethiopia is at the other end of the scale when it comes to private investments, which at 6.9 per cent is the sixth lowest in the

world (World Bank, 2013, p. 22). Government direct involvement in the economy is considerable through a large sector of state-owned enterprises, conglomerates of party-owned businesses and substantial regional development associations (Vaughan & Mesfin, 2011, p. 10). State ownership of land, tight control over financial institutions and regulations of private business further strengthen state hold on economic development.

Development aid has undoubtedly also been important for Ethiopian development. While not exactly a donor darling – the country has been heavily criticised by Western donors over governance issues, particularly after the clamp-down in the aftermath of the 2005 elections – the amount of aid received by Ethiopia has nevertheless increased by a factor of five to six over the last 15 years.[6] Looked at as a percentage of GNI, aid to Ethiopia rose from slightly above 8 per cent in the late 1990s to a high point of 19.2 per cent in 2003, and then fell to 11.2 per cent in 2011. Thus, Ethiopia must be considered highly aid-dependent. Yet, the country has stubbornly followed its own policies and refused to heed pressures from donors – whether these have referred to economic policies or governance or political issues. Aid has nevertheless continued to increase, partly because of Ethiopia's strategic importance and partly due to donors' perceptions that aid to Ethiopia contributes to effective poverty reduction (Borchgrevink, 2008). Since 2000, China has also greatly expanded its relationship with Ethiopia and become a key international partner. Alongside the EU, China is Ethiopia's most important trade partner. Aid is expanding (though given lack of information it is hard to assess the overall amount) and Chinese investments and concessional and commercial loans support much of the infrastructural development in the country. Ethiopia is one of China's largest loan recipients in Africa, even if Ethiopia possesses few of the natural resources that are generally seen to be motivating Chinese engagement in Africa (see Chapter 14 by Bøås in this book). China's motives seem in part to be parallel to Western ones, in seeking a political ally in a country playing a vocal role on the international arena. But in contrast to Western countries, China also appears to be seeing Ethiopia as a promising economic partner (Hackenesch, 2013).

The policies followed by the Ethiopian government have led to significant increases in agricultural production, as reflected in the growth figures referred to above. Strong growth in services and construction also contributes to the overall figures, while growth in the industrial sector has not been sufficient for this sector to increase its share of the economy. This raises some doubts over the feasibility of achieving middle-income status by 2025, which would involve substantially accelerated industrial growth, according to the government's calculations.

Progress has not been limited to overall growth rates; also social indicators show considerable improvement. Between 1994 and 2011, the proportion of the population living on less than US$1.25 (PPP) was reduced from 60.5 per cent to 30.7. There are likewise substantial advances in basic health and education indicators. By the end of 2011, Ethiopia reported to be on track to reach six of

the eight Millennium Development Goals by 2015, and claimed that it was likely that the two other goals could also be reached.[7]

In sum, Ethiopia's authoritarian state maintains a tight hold over the economy. Over its two decades in power, it has succeeded in generating strong growth and significant poverty reduction, in spite of the country's challenging starting point with extreme poverty levels and a limited and degraded resource base. Vaughan and Mesfin (2011) apply the term *neo-patrimonial development state* when discussing the country's development model. Kelsall has coined this term in order to account for the observation that some African neo-patrimonial states have done quite well in development terms, at least over certain periods. In his analysis, these states are characterised by (a) centralisation, allowing the national leadership control over rents, and (b) the fact that the elites have a long-term perspective in managing these rents (Kelsall, 2011). Ethiopia would appear to fit quite well with this model, in terms of both Kelsall's two characteristics and the predicted result of high growth and improved development indicators.

Environmental sustainability and Ethiopia's 'climate-resilient green economy strategy'

Ethiopia's five-year development strategy (the Growth and Transformation Plan 2010–2015, GTP) has the objective of initiating the process towards reaching middle-income status by 2025. The GTP replaced the former Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which guided the strong growth years 2005–2010. The main change in the current strategy is an increased focus on expanding the industry sector, with an emphasis on small and medium-sized enterprises and annual growth targets of 20 per cent. Agricultural and infrastructural development remain central to the strategy, however. In 2011, the GTP was complemented by the Climate-Resilient Green Economy Strategy (CRGE) (Federal Democratic Republic of Ethiopia, 2011a). This ambitious strategy added the goal of Ethiopia becoming carbon neutral by 2025. Furthermore, the CRGE strategy envisions the implementation of climate change adaptation measures, especially related to agriculture. The main argument underlying the strategy is that there is no contradiction between growth and a green economy: On the contrary, achieving strong and sustained growth and developing a carbon-neutral economy are perceived as mutually reinforcing objectives (see related discussion in McNeill & Wilhite, Chapter 3 of this volume).

The CRGE contemplates action along several dimensions. Harnessing renewable energy sources – hydropower, wind, geothermal and solar – forms an important component. Hydroelectric development is the centrepiece. Perhaps surprisingly, given the frequent droughts in Ethiopia, the country nevertheless possesses ample water resources suitable for power production. The Blue Nile, in particular, offers enormous hydroelectric potential. Using these water resources for carbon-neutral energy is expected to stimulate growth, reduce emissions and

environmental destruction through firewood collection, improve health through reduced indoor pollution, reduce dependence on petroleum imports, give foreign exchange earnings through the export of electricity to neighbouring countries and replace carbon-based emissions in these countries. Forest protection is another crucial element of the CRGE strategy, and includes reforestation as well as reducing dependence on firewood through the promotion of fuel-efficient stoves and electrification. Furthermore, improved agricultural technologies – particularly related to livestock keeping – are crucial elements for Ethiopia's goal of becoming carbon neutral.

The strategy argues that becoming carbon neutral is fully compatible with the goal of sustained high economic growth, and that actually these measures will stimulate such growth. The hydroelectric developments envisioned are immense: While Ethiopia doubled its hydroelectric capacity between 2008 and 2011/2012 (Block & Strzepek, 2012), the plan is to increase capacity for renewable electricity production five-fold again by 2016, and then to double it again by 2030 (Federal Democratic Republic of Ethiopia, 2011b). The Grand Ethiopian Renaissance Dam – GERD for short – is currently being constructed and is by itself expected to raise Ethiopian generation capacity from 2,000 MW in 2011 to 8,000 MW when it enters production in 2015. It will be the largest hydroelectric power plant in Africa. While this will greatly aid the expansion of the electricity grid in Ethiopia and stimulate industrial development, it will also allow a considerable surplus of energy to be sold to neighbouring countries – in the first instance, to Sudan.

Other efforts at becoming carbon neutral are also expected to be profitable. The promotion of fuel-saving stoves – nine million of them are planned to be 'deployed' by 2015 – has been calculated to imply savings of 'US$270 million in opportunity costs for fuel wood, increasing rural household incomes by 10 percent' (Federal Democratic Republic of Ethiopia, 2011b, p. 8). Another important expected way of ensuring profitability is through carbon finance. Ethiopia already has CDM funding for reforestation activities and has presented further proposals related to fuel-saving cooking stoves, biofuel production and carbon sequestration. In the future, it is expected that hydropower development will also receive carbon credits.

The CRGE strategy is formulated as a bold vision for sustainable development. In the words of the late Prime Minister Meles Zenawi:

> For Ethiopia, green growth is a necessity as well as an opportunity to be seized. It is an opportunity to realise our country's huge potential in renewable energy and a necessity so as to arrest agro-ecological degradation that threatens to trap millions of our citizens in poverty.… Our goal is to quickly improve the living conditions of our people by reaching a middle-income status by 2025 based on carbon-neutral growth.
>
> (Federal Democratic Republic of Ethiopia, 2011b, p. 5)

So, how realistic is this vision?

Challenges of an emerging green economy

The characterisation of Ethiopia as an emerging economy rests more on expectations for the future than on what has been achieved until now. That is, it rests on the expectation that economic growth in Ethiopia will continue at similar high rates as has been the case over the last decade. Similarly, the environmental sustainability of the CRGE strategy is something that will have to prove itself over the years to come. So how can we assess these expectations? What are the challenges and risks the Ethiopian government must confront when seeking to realise these objectives? On the economic side, there is both the issue of whether growth will continue at the predicted high rates, and whether this growth will be distributed in ways that ensure that also the poorest segments of the population benefit. On the environmental side, there are similar questions of whether the grandiose plans will be implemented and whether the expected environmental benefits will materialise. Finally, there are uncertainties related to Ethiopia's political development. In the following, we look at these issues in turn.

In the government's economic strategy for the coming years, agriculture continues to be the sector envisioned to contribute most to overall growth. Given the relatively low level of productivity of Ethiopian agriculture, there are undoubtedly significant potentials for further growth. Improved technologies (including the expansion of irrigation), switching to higher value crops and further stimulating the commercialisation of smallholder agriculture through improved infrastructure and market access are key elements in the five-year plan. Still, it is worth pointing out the twin uncertainties of climate and prices of agricultural products on the world market. The mainly rain-fed agriculture of Ethiopia remains vulnerable to droughts as well as floods. Predictions of the impacts of global warming for Ethiopia's climate vary – there are scenarios that predict increasing as well as decreasing rainfall. Both cases, though, include increased variability in rainfall patterns. World Bank analyses of the impacts of climate change for Ethiopian agriculture indicate annual losses of 8–10 per cent in agricultural production by 2045, 20 years earlier in the drier scenario (World Bank Group, 2010). These estimates are reduced if adaptation measures are introduced in time. Furthermore, world food prices have remained high during Ethiopia's period of accelerated growth – which has been an important precondition for the high growth levels. Experts disagree over the likelihood that this situation will continue in the future. In sum, while possible, there are considerable uncertainties related to the possibility of achieving the targets for agricultural growth.

When it comes to the services and industry sectors, finance is acknowledged as the major bottleneck, by the government as well as by the outside analysts. With low levels of domestic savings and threats of inflationary pressure, to continue with the very high levels of public investments may not be feasible – and certainly not to the levels required in order to have an industrial growth of 20 per cent per year, as required by the mid-income status by 2025 projections.

Thus, Ethiopia will need to attract large foreign investments (World Bank, 2013). So far, the largest investors have come from India, Saudi Arabia and China (in that order). On the World Bank's list of Ease of Doing Business, Ethiopia ranks 129th of 185 countries. In an African context, this is actually a good ranking. Still, to attract major investments from Western companies, it is probably important both to improve perceptions of business-friendliness and to promote the image of a stable and fast-growing economy. So again, the growth targets appear to be optimistic. However, they are not impossible to achieve.

How should we expect growth to be distributed? So far, Ethiopia has achieved a growth that has significantly improved conditions for the poorest, in terms of income as well as services. While inequality as measured by the Gini index has risen a little, it remains very low (33.6).[8] The new strategy's main emphasis on promoting the agricultural production of smallholders should imply that poverty-reducing effects should continue to be strong. Yet, the new emphasis on large-scale agriculture in the lowlands and the increasing promotion of small and medium-sized industrial enterprises will also lead to increasing inequality. And while expansion of industry and services will create new employment, it seems unlikely to resolve the problems of all those – pastoralists and others – expelled from rural areas, for instance, due to the development of large-scale mechanised agriculture in the lowlands. Thus, a likely prediction seems to be a continued overall reduction of poverty levels, with some increase in inequality, and deepened marginalisation for certain poor segments.

Some of the envisioned hydroelectric developments are already underway, and financing has been secured for other future projects. Yet the Ethiopian government acknowledges that also here increasing international investments are crucial for reaching the objectives. Questions have also been raised as to whether the hydroelectric potential is really as large as claimed. Problems of silting are common with huge dams and can greatly reduce the capacity over time. Annual fluctuation in the amounts of water in the rivers may mean that installed capacity can only be produced a few months per year. Should the dry climate change predictions prove to be correct, these problems will be exacerbated. And increased development of irrigation in agriculture – which the government is also planning – will imply competition for water and trade-offs with electricity production.

There is also an international dimension to the competition for water. Ethiopia's construction of the GERD dam on the Blue Nile is provoking strong reactions in Egypt, a country for which the Nile water always has been the lifeline. Eighty-five per cent of this water comes from the Blue Nile and Ethiopia, and Egypt fears reduced water levels. The countries disagree over the effects the dam will have on the water flow, but the case brings out the complexity of shared water resources across national borders. As a downstream country, Egypt is in a weak position for defending the agreement on the use of Nile waters imposed by the British in 1929, which asserted Egypt's 'natural and historical rights over the river water'. Now deposed president Morsi's talk of 'keeping all options open' has been generally interpreted as veiled threats of military action

should Ethiopia carry through its plans. They emphasise the seriousness of the issue, but have not swayed Ethiopia, which in late 2013 diverted the course of the Blue Nile in order to start dam construction.[9]

Other questions related to the Ethiopian hydropower plans concern environmental impacts. First, there exists considerable scepticism about whether large dams in general can be a solution to climate problems, as they often release considerable amounts of greenhouse gases due to the decomposing of submerged organic matter. The GERD dam will in part flood forested areas, and its carbon-offsetting capacity may be correspondingly reduced. Furthermore, the fact that no serious Environmental Impact Assessment has been carried out has naturally raised concerns also about local environmental impacts.

It is possible to pose similar questions about over-optimism with regards to the feasibility of implementing other components of the CRGE strategy at the scale and within the timeframe envisioned, as well as to whether all the expectations for emission reductions and economic benefits will actually be realised. In general, though, it must be said to be better to have too high ambitions for environmentally sustainable development and reductions of climate gas emissions than not having them at all.

An assessment of Ethiopia's potential for sustainable development cannot avoid also looking into the political situation. Tensions in the existing governance structure could lead to ruptures that would stop or reverse the positive economic and social developments of the last decade. Furthermore, as Hopwood *et al.* show in their review of approaches to sustainable development, in one important trend of thought – what they term a 'transformation view of sustainable development' – the concept also comprises the ability of people to have a say over their own development (Hopwood *et al.*, 2005, p. 45). Ethiopia, unfortunately, is quite some distance from fulfilling the democratic requirement of this 'strong version' of sustainable development.

As mentioned above, the process of increasing democratisation was reversed in 2005, and few observers see the possibility of renewed democratic opening while the current regime remains in power (Clapham, 2009). The experience of the 2010 elections has been summed up as 'the reestablishment of the one-party state' (Tronvoll, 2010). The ruling EPRDF party seems to have very solid control over the country, without serious challengers. Opposition parties are broken and demoralised, civil society as an arena for critical discussion does not exist, and independent media has been suppressed. While there is an outspoken opposition in the diaspora, and a range of armed insurgent groups in the peripheries, neither group forms any real threat to the regime. The potential for splits, or challenges from within the party, is more difficult to assess. There are many speculations about internal divisions and rifts within the EPRDF and, when Prime Minister Meles died last year, observers expected them to surface. The formal succession issue was resolved without outward signs of disagreement by the election of Hailemariam Desalegn. However, few believe that Hailemariam – who is not even Tigrayan – is the real power holder, and the struggle for power over the party and over Ethiopia may very well be ongoing behind the scenes.

So far, anyway, the party has proved itself capable of maintaining its grip. There are few indications that this situation will change in the short term.

Yet there are underlying tensions, as the surprisingly effective opposition campaign in 2005 showed. When an ethnic group – the Tigrayans – comprising around 6 per cent of the population is controlling the state, discontent is inevitable. A hierarchic and authoritarian state, based on command and surveillance, generates opposition and resistance, even in a country with no democratic history. The EPRDF's claim to legitimacy rests on its development achievements. Continued rapid growth might conceivably serve to reduce the underlying tensions. On the other hand, even if no threats to its rule seem imminent, it is an open question as to how long it will take for serious challenges to develop. Without mechanisms for regime change, the results could be dramatic and put an end to Ethiopian emerging economy ambitions.

Conclusion: a model for sustainable development?

How should we assess Ethiopia's developmental model? According to the government's presentation, this is nothing less than a model of sustainable development. Nobody can deny the significant achievements in terms of growth and poverty reduction over the last decade. In a country with such widespread poverty as Ethiopia, these are successes of overriding importance. Furthermore, the ambition of continued growth based on a strategy for becoming carbon neutral is bold and refreshing. The model is implemented through a strong and authoritarian state that plays a highly active role in all aspects of the economy, while at the same time promoting a market economy and in particular the market integration of its rural population.

Clearly, it is a model where development is envisioned as economic improvements and the covering of basic needs. It does not include Western ideas of liberal democracy. The conception of revolutionary democracy – as implied in the name of the party, Ethiopian People's Revolutionary Democratic Front – is based on communal collective participation and representation through consensus rather than on electoral competition and diversity of views and interests (Vaughan & Tronvoll, 2003). This, it should be noted, corresponds well with the characterisation of Ethiopia as a neo-patrimonial developmental state. As Kelsall (2011) notes, neo-patrimonial development is not very compatible with competitive electoral democracy, which tends to favour spending for short-term payoffs in order to win elections rather than the long-term perspective that is a defining characteristic of this form of governance.

The totalitarian aspects of the Ethiopian model are certainly not attractive. They are also married to a technological optimism that at times seems naïve, such as when strategies state that the government 'plans to deploy 9 million more efficient stoves by 2015', that will result in 'emission reduction[s of] about 50 Mt CO_2 annually in 2030' and increased household incomes of 10 per cent (Federal Democratic Republic of Ethiopia, 2011b, p. 8). Perhaps the traits of authoritarian ruthlessness and technocratic optimism are most clearly evidenced

in the policies towards peripheral pastoralists – culturally distinct from the highland peoples who historically have formed the core of the Ethiopian state. In the words of Fouad Makki:

> Viewed from the vantage point of the disinherited, this politics of technoscience – and the classic combination of technocratic hubris and cultural contempt it often entails – constitutes a profound alienation of critical thought and a radical foreclosure of people's ability to self-consciously fashion alternative futures.
>
> (Makki, 2013, p. 20)

Poverty reduction gains in Ethiopia notwithstanding, this is quite far from my idea of sustainable development.

Notes

1 These figures are from the World Bank's Development Data (worldbank.org). The same is the case for other figures reproduced in the text, unless other sources are indicated.
2 UN Data, http://data.un.org/CountryProfile.aspx?crName=ethiopia.
3 The emphasis in this chapter is on the first reason, on Ethiopia's economic development.
4 World Bank Development Data (worldbank.org). There is some disagreement over figures. The growth rates published by the Ethiopian Government are higher than the figures of the IMF and the World Bank. Technical reasons related to base years supposedly underlie this divergence. Anyway, no matter which figures are believed, Ethiopian economic performance over the last decade has been impressive.
5 According to State Minister of Agriculture Aberra Deresa: 'We are not really appreciating pastoralists remaining as they are. We have to improve their livelihood by creating job opportunities. Pastoralism, as it is, is not sustainable' (quoted in Lavers, 2012, p. 119).
6 Between 1997 and 2000, official development assistance to Ethiopia averaged around US$640 million. From 2001, there was a steady year-by-year increase that peaked at US$3,818 million in 2009, with figures above 3,500 million for the following two years (OECD DAC statistics, www.oecd.org/dac/stats/idsonline.htm).
7 UN Statistics Division: Millennium Development Goals Database, http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Data/snapshots.htm.
8 http://data.worldbank.org/indicator/SI.POV.GINI.
9 Sudan, on the other hand, through which the Blue Nile waters flow first before reaching Egypt, is positive to the plan, and expects to get cheap electricity from the new electricity plant.

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Part V
Conclusion

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19 Global sustainability and the rise of the South

Development patterns and emerging challenges

Arve Hansen and Ulrikke Wethal

It is clear from the preceding chapters that the South is indeed rising, and that the emerging economies are challenging traditional global power relations and development orthodoxies. Simultaneously, while much has happened in terms of economic development, there have been very few positive changes regarding environmental sustainability. All of the 12 case studies reveal that their 'emergence' is based on an intensified exploitation of natural resources, be it land, water, minerals or fossil fuels, although the development path is far from uniform. They furthermore demonstrate that the ambition of achieving sustainable development globally is severely challenged by the rise of the South. As will be discussed below, combined with the dismal environmental performance of the North, this challenges the very definition of *development*.

Instead of a mere summary, this last chapter sets out to revisit the central themes of this book as presented in the introductory section: the emerging economies and their development strategies, and sustainable development within this context. We use the case studies to illustrate certain features of modern development, and move beyond the empirical claims of each chapter. In doing so, we approach the case countries as a group as well as the interaction between them.

The emergence of what?

As the title of the book indicates, and as discussed in the first chapter, we use the discourse of emerging economies as a starting point, but are at the same time questioning its empirical validity. So what can be made of the term 'emerging economies'? Is it just another buzzword devoid of meaning? It is certainly analytically weak due to the lack of a clear definition. To be able to use it as an analytical category requires a choice of defining criteria. The way that it is currently being employed involves a seemingly interchangeable use of the rarely defined terms emerging economies, markets, powers and countries. And certainly the value of the term is reduced as ever more countries are added to the list of emerging economies or grouped together with developing countries. For example, the Human Development Report 2013 (UNDP 2013, p. 18) uses IMF's list of 110 'Emerging and Developing Economies' to in turn represent

'emerging economies'. Hence, the term risks becoming as meaningless as the term 'developing countries', and it is possible to imagine a future discourse where all countries are ostensibly 'emerging' instead of 'developing'.

Furthermore, it is evident from the case studies that widely different realities are hidden behind the veil of emergence. Particularly Ethiopia and Mozambique stand out as different from the rest, and are, as argued by Borchgrevink and Wethal in Chapters 18 and 16, best understood as holding a potential, or a promise, of emergence. These two are among the poorest countries in the world, and, although they have achieved impressive growth rates, it is clearly problematic to include them in the same category as, for example, Brazil, India and China (who in turn also differ extensively from each other). Chile, on the other hand, is the only high-income country among the cases,[1] and its current trajectory is characterised by processes of deindustrialisation in combination with resource extraction. This stands in sharp contrast to the current processes of industrial upgrading in East Asia. The cases of emerging economies in this book are thus far from representing a coherent group of countries.

What brings the cases together as emerging economies? Emergence primarily refers to the involvement of these countries in a shared process, and not a common economic strategy or level of economic development. We would argue that, despite its obvious vagueness, the idea of emerging economies holds certain value in that it categorises the world on the basis of performance in selected countries, rather than grouping together all countries outside the core capitalist economies based on what they have *not* achieved. The term 'emerging economies' is useful first and foremost in that it connotes difference from the mere 'developing countries'. It implies a process of rapid economic growth and both a growing importance and increased integration of a 'new' set of countries into world markets. This involves different strategies of export-led growth and an increased significance of foreign capital. Hence, the process of emergence more fundamentally involves the expansion and intensification of global capitalism.

The triumph of capitalism?

The greater integration into the global capitalist system is one of the defining traits of the development trajectories of the emerging economies. There is no more communist bloc, no more non-aligned movements, no more grand alternatives. This is a significant development – a development that has several implications.

The emerging economies are illustrating that it is possible for poorer countries to achieve high growth rates by joining world markets. While this may not come as a surprise in contemporary development discourses, some decades ago this was unthinkable for radical approaches to development. At the same time, while the integration into global markets creates new opportunities and challenges traditional hegemonies, it also leads to harsh competition and new patterns of dependence, as will be discussed below.

Furthermore, the triumph of capitalism could well be the main reason for the failure of sustainable development, as discussed in Chapter 3 and further illustrated by all case chapters. Capitalism as an economic system may indeed be capable of enabling high growth rates, but it typically challenges both the social and the environmental dimensions of sustainable development. First, capitalism, particularly in its contemporary, market-liberal dominant form, creates inequality. As Polanyi argued in *The Great Transformation* (1944), interventions are needed to insulate society against the worst effects of the marketising tendencies of a capitalist economy. For this reason, the state provides citizens with social benefits and other welfare services both to protect the marginalised peoples and to redistribute economic benefits. However, the cases in this book show that in the emerging economies social concerns have taken second place. It is growth, above any other issue, that is central to the development goals and strategies, promoted by both the state and private capital through a principle of reciprocity (see Bull, Chapter 2). This is strikingly manifested by the fact that even the self-proclaimed socialist countries (China and Vietnam) put growth before equality and social development.

Second, the growth imperative of capitalism leads to continued exploitation of land and resources. The effects on the environment are apparent, understood and severe, but very little has been done to mitigate them. Our cases show that, while there have been some initiatives at the national level, we are far from any serious measures to handle the global challenge of sustainable development. And while global problems call for global solutions, the attempts made at the global level have indeed been disappointing (as discussed by McNeill and Wilhite in Chapter 3). The main reason for this is that serious action to promote sustainable development will in practice challenge economic growth; sustainable development has therefore been reconceptualised in contemporary development discourses as 'green economy' or 'green growth' (as illustrated through the cases of, for example, China, South Africa, Mozambique, Ethiopia, Vietnam and Indonesia).

The common features of capitalist integration and growth do not, however, imply uniformity. Our cases show that these countries have very different roles in the global marketplace, which in turn calls for a closer look at the different realities and interlinkages that become partly obscured by the generalising concept of emerging economies.

Geographies of emergence: similarities and differences within and between regions

As argued in the first chapter, and as evident from the three regional overview chapters, it is necessary to understand regional tendencies as a backdrop for development strategies in individual countries. While upholding the need to understand regions due to intra-regional integration and cooperation, there are great variations within, as well as interesting similarities across, the three different regions included in this book.

The nature and extent of variation between the current state of the emerging economies may be demonstrated by comparing them in terms of two main factors of significance: level of GDP per capita (an indicator of level of economic development) and manufactures as a percentage of total exports (a crude indicator of whether the basis for the country's integration into the world economy is resource extraction or not).

Figure 19.1 illustrates the very varying economic situations within the group of emerging economies in this book. First of all, it shows the big differences in income between the different cases. The figure also presents the economic sectors that dominate the countries' export-led growth, and thus indicates what role they play in the global economy: in crude terms: as suppliers of manufactures or natural resources (including agricultural products, minerals and fossil fuels).

Unsurprisingly, the Asian cases have the highest degree of manufactures in their total exports (except Botswana, as will be discussed below). The statistics for China, Vietnam and India reflect their strategies of export-led industrialisation, although China clearly stands out among the rest. Of course, as is evident from the case studies, very different realities hide behind these numbers. While China and India are in a process of industrial upgrading, with export of both low and high value-added products, questions are being raised regarding Vietnam's ability to continue along this path. As discussed by Hansen in

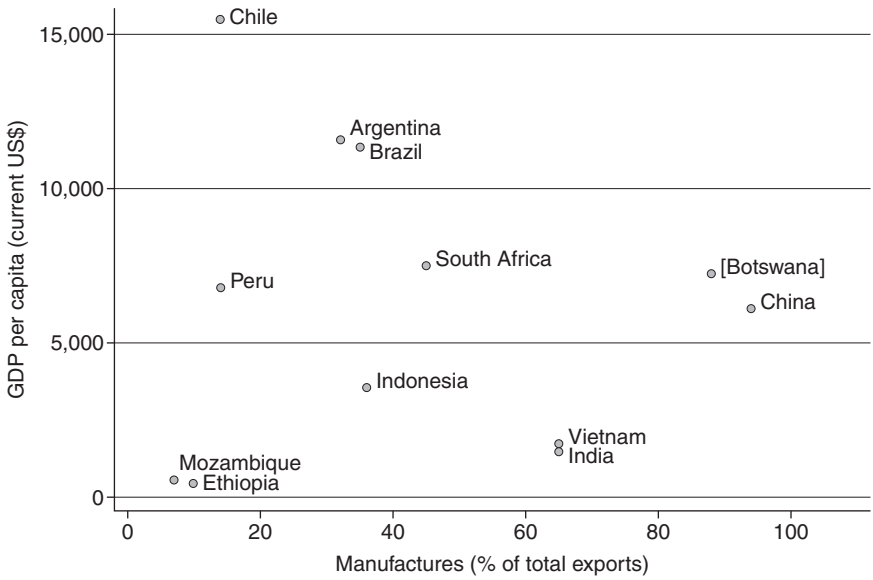

Figure 19.1 GDP per capita and manufactures as percentage of exports (source: based on data from World Bank 2014).

Note

We would like to thank Ida Rudolfsen at PRIO for the assistance in designing this figure for the purpose of this chapter.

Chapter 7, Vietnam's manufacturing is based on low value-added and labour-intensive industry such as textiles and footwear, and the higher value-added production is driven by foreign capital with currently little technological spill-over. Following the argument of Masina in Chapter 4, the Asian emerging economies (perhaps apart from China) are all struggling to achieve the degree of technological upgrading seen in Japan and the Asian Tigers, and are highly dependent on FDI. Nevertheless, with the re-emergence of Asia, the region's emerging economies have become the most significant in driving the global economic shift, being centres for both supply and demand in the world economy.

South Africa, Indonesia, Brazil and Argentina stand in a mid-position, where both manufactures and natural resources make up important parts of their exports. These countries also have industries geared towards the domestic market, such as Brazil and Indonesia's automobile industries, clothing in South Africa and Argentina's food-processing industry.

Botswana differs from the other manufacture exporters, as the numbers are mainly based on a relatively sophisticated diamond industry, amounting to 75.6 per cent of total exports (African Development Bank Group 2012). This signifies, as discussed by Taylor in Chapter 17, that although there is industrial development in Botswana, the economy is heavily dependent on a single natural resource. The most resource-dependent of the emerging economies are Chile, Peru, Mozambique and Ethiopia. Here, Chile, Peru and Mozambique are basing their exports largely on non-renewables, particularly mining, while Ethiopia is following an agricultural-led integration, involving large foreign investments in land. This grouping based on exports of natural resources brings together countries that are quite heterogeneous in other ways. Chile is a high-income country in a process of deindustrialisation, while Mozambique and Ethiopia are low-income countries with very little economic diversification. Mozambique is also the most obvious example of a 'hollow' emergence, achieving high growth levels mainly based on foreign investments in mining and mega-projects.

While a number of emerging economies also have growing domestic markets, this is not necessarily the case for all. With an increase in purchasing power, the giant domestic market of China now seems to be materialising. While none of the other Asian emerging economies can match the size of China, domestic markets are also growing in Indonesia, India and Vietnam. As Asia is re-emerging, ever more companies set out not only to use this region as sites of production, but also to target its new consumers. This is not, however, confined to Asia. Brazil, Peru, Chile and South Africa are examples of countries that also fit this description. The rise of a new consumer class in emerging economies can potentially transform the global economy in an even deeper sense than their increasing importance as sites for the factories and farms of the world.

This section illustrates the very varying roles that emerging economies play in the world economy. There is far from any singular export strategy, but rather a web of different roles filled by the emerging economies spread across all three regions. Historically no country has managed to achieve economic development in the long term without industrialising (Szirmai 2013), and the rise of the

South has not fundamentally challenged the definition of development as a process of technological upgrading and industrial growth and diversification (see Bull, Chapter 2). Still, there is a high reliance on commodity export in many of the emerging economies. The variety of roles in global value chains thus seems to create a new type of dependency between the emerging economies.

New patterns of dependence

The strength of the emerging economies is frequently overstated, as the vulnerability of these development processes tends to be ignored or at least downplayed in the discourse of emergence. Economic integration and liberalisation entails exposure to the volatility of world markets, and it remains to be seen how strong this emergence really is. The history of development is full of countries expected to develop rapidly that instead have been slowing down. And the many crises of capitalism tend to upset development trajectories dramatically.

The Asian case countries are increasingly upgrading to more advanced technology and diverse modes of production (although with different degrees of success, as discussed above). Furthermore, the thriving industries of China and India are now driving a global commodity boom, leading to an upsurge of prices on natural resources, and they thus have the power to structure how other countries in the South manage their export strategies. This is exemplified in our cases with, for example, the exports of soy from Argentina, coal and gas from Mozambique and minerals from Peru. The growth in resource-rich economies could thus be based on a commodity boom similar to the one experienced during the industrialisation of Europe and North America (Williamson 2012). If so, growth rates in economies that are based mainly on the export of fuels, raw materials and foodstuffs may decrease should growth in demand from the industries in China and India begin to slow down.

Furthermore, the emerging economies are first and foremost competitors in a global marketplace, and development strategies are geared towards national self-interest before regional or global solidarity. Economic integration and liberalisation entails dependence, although not exactly in the sense portrayed by dependency theory. Growth in all the emerging economies is dependent on foreign supply and demand. What is new is that the dependence to an increasing extent is towards other countries in the South, in terms of both trade and access to financial loans, rather than along the traditional North–South division (see discussion in Chapter 1). This is particularly evident in China's active engagement in other emerging economies.

The roles of the regional superpowers within the different regions are striking. These are China and India in Asia, Brazil in Latin America and South Africa in Sub-Saharan Africa (recognised as the BRICS-countries without Russia). While representing important trade opportunities within the regions, as well as driving novel developments, they also represent challenges by being extremely powerful in comparison to smaller states. South Africa dwarfs the economies of its neighbours, and China is seen as a major threat in the eyes of

its closest neighbours, such as Vietnam. So while we argued in the first chapter that the world is increasingly multipolar, there are strong contenders for the positions as regional and global development hegemons.

At the same time, however, dependence on the big economies of the South is also evident in the North. For example, a collapse in China would be likely to lead to a complete collapse in the global economy. It is somewhat ironic that a country led by a communist party is vital to the wellbeing of global capitalism.

Sustainable development: an oxymoron?

As claimed at the beginning of the chapter, the 12 cases in this book represent much development, but very little sustainability. Even though development strategies have differed, and often represent a break with the development policies the North advocates for them, these emerging economies are not fostering any new development paths in terms of environmental protection. Despite the mainstreaming of sustainable development in development discourses, growth strategies pursued in emerging economies are resembling the cruder development thinking of the 1960s with economic growth taking the driver's seat (with little concern for equity or the environment), and 'catch-up' with the North as the overriding goal (see Bull, Chapter 2).

As discussed in Chapter 3 by McNeill and Wilhite, the Kuznets curve has been used to describe the alleged relation between the environment and economic growth. The idea is that, as economies grow, growth will first lead to environmental degradation, but beyond a certain point, the fruits of this same growth can be used to prevent or ameliorate degradation. However, in advanced economies, most reduction in environmental degradation has taken place due to outsourcing of production rather than any innovative way of mitigating the challenges. In terms of achieving global sustainable development, the exportation of environmental problems through a relocalisation of production makes no positive contribution.

While there has been increasing acknowledgement of the environmental crisis we are facing, radical action remains absent. So-called green-washing has been the main response to the call for sustainable development. This is not, we argue, necessarily because the idea of sustainable development is wrong, but mainly because countries are not willing to commit deeply to the required transformations. It is also because of the lack of visions that are both viable and appeal to large segments of societies. Economic growth enables job creation and increases living standards, and can allow governments to avoid the uncomfortable questions of more radical redistribution. Halting growth in a capitalist economy leads to recessions and unemployment. Even though it tends to hit the poorest hardest, the ramifications are felt across all groups in society. For a powerful political party (whether in a one-party system or a democracy) to preach no-growth or degrowth in this context is political suicide. Politics is the art of the possible (as von Bismarck famously said), and green-washing and technological fixes are much more palatable alternatives than the societal transformations required by deeper understandings of sustainability.

Across all three regions, irrespective of country size or economic history, we find strategies of 'green growth', 'green capitalism' or 'ecological modernisation' being adopted, based on the claim that the market can serve as a tool for confronting the challenges of sustainable development. These strategies, we suggest, mask a lack of political will (and/or capacity) to challenge the growth trajectories embarked upon. Sustainable development is often approached rhetorically, as something that can be enshrined in development strategy papers and preached on international meetings, but often weakly implemented in practice. The cases of South Africa, Mozambique, Peru, Chile and Vietnam discussed in this book exemplify embracement of the rhetoric of sustainable development without aggressive implementation.

Returning to the three dimensions of sustainable development (see Chapter 3), we can conclude that our cases are faring rather well on the economic dimension, but struggling on the environmental dimension. What then about the social dimension? First of all, are the emerging economies achieving inclusive growth? The answer seems to be – not really. Of all our cases only some Latin American countries have been showing progress in terms of reducing inequality. But these countries have for a long time been among the most unequal in the world, and still are. As Braathen and Kasahara discuss in Chapter 10, the *lulismo* in Brazil involved improving living standards of the poorest while protecting the interests of the richest. This is thus inequality reduction that does not really challenge the deep divisions in society. This seems to catch a more general trend among emerging economies. In a globalised economy and the new international division of labour, there are huge rents to reap for the privileged, while the global working class is scraping the margins of the capitalist system. Not even the countries among our cases purporting to be socialist are performing well in terms of equality.

The social dimension of sustainable development also includes aspects such as identity and social cohesion. Both are evidently very important features of development today, exemplified by, for example, the Arabic Spring and an upsurge of social protests in much of the emerging world. In an increasingly globalised world, it seems ever more important to create a national identity for political support. In countries where growth-induced inequality or environmental degradation are affecting people's livelihoods, and the government fails to meet the expectations of its growing middle classes, cohesion may be dissolved and thus increase the risk of social unrest and 'disobedience' from the population. This has, for example, been the case in China, with an upsurge of so-called mass-incidents, as well as Brazil with massive demonstrations throughout the country during the summer of 2013. In many of the cases in this book, it is clear that large parts of the population are excluded from the benefits of the race for economic prosperity and do not experience any significant change in their daily lives (such as in India, Mozambique and Peru). In emerging economies where the state takes on the position as a facilitator for foreign capital and national elites rather than a protector of broader national interests, we are likely to experience more of these types of societal consequences in the future.

Different strategies, similar goals?

The strategies to achieve development have varied. Indeed, as claimed by Hubert Schmitz (2007, p. 55), modern development is characterised by a 'find your own way' mentality, and he argues that latecomers to development have to design their own distinctive paths. This notion has undoubtedly received a boost from the rise of China, India and other Asian countries (Payne & Phillips 2010). Schmitz (2007) stresses the problematic 'one-size-fits-all' that has been apparent in previous development thinking through, for example, structural adjustment programmes during the 1980s. However, one still talks about a Chinese model for other countries to follow. While it has become increasingly evident that there is no clear 'Beijing Consensus', perhaps 'the idea of a China model is more important as a symbol or a metaphor than as a distinct and coherent model that might provide a clear guide for development elsewhere' (Breslin 2011, p. 1328). Even if there is disagreement as to what this model really entails, there seems to be no doubt that China's growth has played a part in a relegitimisation of state developmentalism (Breslin 2011). Vietnam, Brazil, Botswana, Ethiopia and South Africa are all examples of this. Moreover, this is part of a more general trend that was indicated in the first two chapters of the book, where the North is losing its hegemony in defining 'correct' development strategies, and countries in the South are rather looking to other Southern countries for inspiration (see also UNDP 2013).

However, regardless of different development strategies, broadly speaking, the development goals seem very similar. In all its simplicity, Rostow's (1959) old stages of growth appear to still hold validity, at least as illustrating the imagined development paths from traditional to consumer societies. Even though we have argued that the North has lost its hegemony in defining how to *achieve* development, this seems not to be the case for its power to define the final destination of development processes. In this way, the strong scripts set by the early developers seem to still dictate the goal of development. As argued by Bull in Chapter 2, the rise of the emerging economies has indeed strengthened a growth and technology-focused approach to development. With the marginalisation of alternative visions of development, across all cases and regions, this resembles the old modernisation logic of climbing up a linear path towards modernity. Even in cases like China and Vietnam, where the capitalist integration is articulated as part of the path towards socialism, development patterns and plans seem to conform to this ideal. With a continuation of the status quo, and development understood as economic growth and catch-up with the high-consumption societies of the richest countries, sustainable development does indeed seem to represent an oxymoron.

Redefining development?

The fact that the consumption of resources involved in the development models of the industrialised countries are deeply unsustainable has made

some observers see that 'development as a project of catch-up is dead in the water' (Harriss-White 2007, p. 50). But this fails to grasp the reality of development in the South, where catch-up indeed continues to be the goal of development. Already at the Bandung conference in 1955, it was made explicit that development was mainly an economic issue that focuses on production and accumulation, supported by private investments and aid (Smukkestad 2008; see also Bull, Chapter 2). This logic seems highly resilient regardless of visions and rhetoric about alternative development models. The rise of the South thus represents a fundamental challenge to global sustainability. Not because these countries are performing worse than the North, but mainly because the countries of the North have not managed to decrease their ecological footprint and create 'development space' for the South (see Chapters 1 and 3 for discussion). As Welzer (2011) argues, the availability of an entire planet for a small part of humanity and its economic model does no longer exist.

We started this book by emphasising the call of the Brundtland Commission (WCED 1987) for the North to take responsibility and leadership in achieving sustainable development. It has never been clearer that change needs to start in the rich countries which have the economic means to undergo such transformations. No matter how much we talk about service economies, decoupling and green growth, there has been no significant change in our dependence on natural resources, and only little change in our means of accessing energy. The North has completely failed in taking the lead on finding new paths of societal organisation more in line with the limits set by the natural world. This becomes increasingly obvious as more countries are following along the same path. If development is indeed a catch-up process, we need to change the end goal of development.

The North keeps consuming more, countering the predictions of older theories of development. Returning to Rostow, his interesting and imagined sixth stage of development has usually been ignored in development discourses. He predicted a stage which he called 'beyond consumption'. He asked what would happen 'when the increase in real income itself loses its charm' (Rostow 1959, p. 3). He furthermore stated that (p. 14):

> It is evident [...] that the march of compound interest is bringing some societies close to the point where the pursuit of food, shelter, clothing, as well as durable consumer goods and public and private services, may no longer dominate their lives.

The record shows that his predictions were off the mark. Instead, rise in income and consumption has seemingly maintained its charm. Consumption has even grown beyond income in advanced economies through the expansion of access to credit (Ingham 2008).

When discussing sustainable development, the gaze should once again be turned towards the North, both in terms of sustainability and development. As

Payne and Phillips (2010) argue, it is time to consider 'development' as a global phenomenon, not something restricted to developing or emerging countries. Furthermore,

> [w]e need instead a conception of development which is widened to accommodate questions of wealth as well as poverty, which explores the connections between the two, and which is consequently capable of offering a more comprehensive understanding of sustainability in this context.
>
> (Payne & Phillips 2010, p. 181)

If there is one thing we should take away from this book, it is that we cannot expect the emerging economies to be able to transcend the environmental impacts of development. It is only fair and logical that the first-movers of development also become the first-movers of sustainability. We end this book with a call for the advanced economies to embark on the quest to create new scripts of development that are more in line with the limits set by our natural environment.

Note

1 Following World Bank ratings based on GNI per capita, Chile is considered high income; Argentina, Brazil, China, Peru, South Africa and Botswana upper middle-income; Indonesia, Vietnam and India lower middle-income; and Ethiopia and Mozambique low income.

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